



Dave Yost • Auditor of State



**CITY OF WAUSEON  
FULTON COUNTY  
DECEMBER 31, 2016**

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CITY OF WAUSEON  
FULTON COUNTY  
DECEMBER 31, 2016

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

### ***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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2017, 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.

City of Wauseon  
Fulton County  
Independent Auditor's Report  
Page 3

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 7, 2017

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# CITY OF WAUSEON, OHIO

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## *Management's Discussion and Analysis For the Year Ended December 31, 2016*

*Unaudited*

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The discussion and analysis of the City of Wauseon's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. 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 2016 are as follows:

- ❑ In total, net position increased \$1,881,042. Net position of governmental activities increased \$1,911,490, which represents a 13% increase from 2015. Net position of business-type activities decreased \$30,448 or less than 1% from 2015.
- ❑ General revenues accounted for \$4,888,773 in revenue or 45% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,933,482, 55% of total revenues of \$10,822,255.
- ❑ The City had \$5,944,887 in expenses related to governmental activities; only \$2,774,676 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,871,156 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$4,368,516 in revenues and \$4,408,828 in expenditures. The general fund's fund balance decreased from \$1,003,472 to \$962,606.

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

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

These statements are as follows:

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

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

# CITY OF WAUSEON, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2016*

*Unaudited*

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## **Government-wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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

## CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**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 2016 compared to 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$8,141,013	\$7,474,945	\$5,297,167	\$5,507,039	\$13,438,180	\$12,981,984
Capital Assets, Net	15,114,595	12,839,699	14,998,724	15,403,683	30,113,319	28,243,382
Total Assets	<u>23,255,608</u>	<u>20,314,644</u>	<u>20,295,891</u>	<u>20,910,722</u>	<u>43,551,499</u>	<u>41,225,366</u>
Deferred Outflows of Resources	1,863,053	461,781	382,754	130,206	2,245,807	591,987
Net Pension Liability	4,522,676	2,832,429	1,011,315	746,944	5,533,991	3,579,373
Long-term Liabilities	3,673,739	2,736,304	3,731,481	4,050,354	7,405,220	6,786,658
Other Liabilities	101,685	450,770	61,557	345,278	163,242	796,048
Total Liabilities	<u>8,298,100</u>	<u>6,019,503</u>	<u>4,804,353</u>	<u>5,142,576</u>	<u>13,102,453</u>	<u>11,162,079</u>
Deferred Inflows of Resources	648,097	495,948	19,541	13,153	667,638	509,101
Net Position						
Net Investment in Capital Assets	13,177,278	10,504,699	11,359,606	11,409,752	24,536,884	21,914,451
Restricted	2,825,706	2,866,037	0	0	2,825,706	2,866,037
Unrestricted	169,480	890,238	4,495,145	4,475,447	4,664,625	5,365,685
Total Net Position	<u>\$16,172,464</u>	<u>\$14,260,974</u>	<u>\$15,854,751</u>	<u>\$15,885,199</u>	<u>\$32,027,215</u>	<u>\$30,146,173</u>

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

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

## **CITY OF WAUSEON, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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

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

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

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

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

## CITY OF WAUSEON, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2016

*Unaudited*

Change in Net Position – The following table shows the change in net position for 2016 compared to 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services and Sales	\$900,947	\$762,575	\$3,158,806	\$3,150,787	\$4,059,753	\$3,913,362
Operating Grants and Contributions	494,029	430,017	0	0	494,029	430,017
Capital Grants and Contributions	1,379,700	158,942	0	0	1,379,700	158,942
Total Program Revenues	<u>2,774,676</u>	<u>1,351,534</u>	<u>3,158,806</u>	<u>3,150,787</u>	<u>5,933,482</u>	<u>4,502,321</u>
General revenues:						
Property Taxes	519,886	223,441	0	0	519,886	223,441
Income Taxes	4,040,835	3,943,548	0	0	4,040,835	3,943,548
Intergovernmental Revenues, Unrestricted	171,889	209,293	0	0	171,889	209,293
Investment Earnings	25,297	22,086	17,617	6,041	42,914	28,127
Miscellaneous	113,249	188,539	0	0	113,249	188,539
Total General Revenues	<u>4,871,156</u>	<u>4,586,907</u>	<u>17,617</u>	<u>6,041</u>	<u>4,888,773</u>	<u>4,592,948</u>
Total Revenues	<u>7,645,832</u>	<u>5,938,441</u>	<u>3,176,423</u>	<u>3,156,828</u>	<u>10,822,255</u>	<u>9,095,269</u>
Program Expenses						
Security of Persons and Property	3,249,412	2,654,300	0	0	3,249,412	2,654,300
Basic Utility Services	87,609	98,967	0	0	87,609	98,967
Leisure Time Activities	639,967	574,149	0	0	639,967	574,149
Community Environment	165,839	282,524	0	0	165,839	282,524
Transportation	957,378	906,745	0	0	957,378	906,745
General Government	736,279	779,667	0	0	736,279	779,667
Interest and Fiscal Charges	108,403	89,065	0	0	108,403	89,065
Water	0	0	1,526,055	1,330,823	1,526,055	1,330,823
Wastewater	0	0	1,470,271	1,410,357	1,470,271	1,410,357
Total Expenses	<u>5,944,887</u>	<u>5,385,417</u>	<u>2,996,326</u>	<u>2,741,180</u>	<u>8,941,213</u>	<u>8,126,597</u>
Change in Net Position Before Transfers	1,700,945	553,024	180,097	415,648	1,881,042	968,672
Transfers	210,545	0	(210,545)	0	0	0
Total Change in Net Position	1,911,490	553,024	(30,448)	415,648	1,881,042	968,672
Beginning Net Position	<u>14,260,974</u>	<u>13,707,950</u>	<u>15,885,199</u>	<u>15,469,551</u>	<u>30,146,173</u>	<u>29,177,501</u>
Ending Net Position	<u>\$16,172,464</u>	<u>\$14,260,974</u>	<u>\$15,854,751</u>	<u>\$15,885,199</u>	<u>\$32,027,215</u>	<u>\$30,146,173</u>

### Governmental Activities

Net position of the City's governmental activities increased \$1,911,490, or 13%. The City began providing inter-hospital transportation for patients, which resulted in an increase in charges for services. An increase in capital grants can be attributed to Ohio Department of Transportation Grants for improvements to Linfoot Street. Collection of the new parks and recreation levy resulted in the increase in property taxes. The City transitioned from outsourcing fire services to having a full time City fire department, which resulted in an increase in security of persons and property.

## CITY OF WAUSEON, OHIO

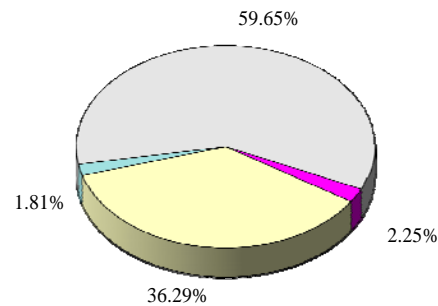
**Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Unaudited**

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

Income taxes and property taxes made up 53% and 7% respectively of revenues for governmental activities in 2016. The City's reliance upon tax revenues is demonstrated by the following graph indicating 60% of total revenues from general tax revenues:

Revenue Sources	2016	Percent of Total
General Tax Revenues	\$4,560,721	59.65%
Intergovernmental, Unrestricted	171,889	2.25%
Program Revenues	2,774,676	36.29%
General Other	138,546	1.81%
Total Revenue	\$7,645,832	100.00%



### **Business-Type Activities**

Net position of business-type activities decreased \$30,448. This represents a change of less than 1% from the previous year. Revenues remained consistent with the previous year. The decrease in net position can be attributed to increases in costs for contractual services and supplies.

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

The City's governmental funds reported a combined fund balance of \$5,917,649, which is an increase from last year's balance of \$4,890,874. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2016 and 2015:

	Fund Balance December 31, 2016	Fund Balance December 31, 2015	Increase (Decrease)
General	\$962,606	\$1,003,472	(\$40,866)
Income Tax Capital Improvement	3,445,322	2,426,545	1,018,777
Other Governmental	1,509,721	1,460,857	48,864
Total	\$5,917,649	\$4,890,874	\$1,026,775

## CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***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:

	2016 <u>Revenues</u>	2015 <u>Revenues</u>	Increase <u>(Decrease)</u>
Taxes	\$3,249,322	\$3,179,583	\$69,739
Intergovernmental Revenue	257,245	245,490	11,755
Charges for Services	645,067	699,898	(54,831)
Licenses and Permits	79,875	18,467	61,408
Investment Earnings	20,555	13,079	7,476
Fines and Forfeitures	16,273	16,498	(225)
All Other Revenue	100,179	144,863	(44,684)
<b>Total</b>	<b><u><u>\$4,368,516</u></u></b>	<b><u><u>\$4,317,878</u></u></b>	<b><u><u>\$50,638</u></u></b>

General Fund revenues remained stable in 2016, increasing approximately 1% when compared to revenues in 2015.

	2016 <u>Expenditures</u>	2015 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,768,953	\$2,516,563	\$252,390
Basic Utility Services	35,494	49,990	(14,496)
Leisure Time Activities	500,843	458,309	42,534
Community Environment	179,104	181,250	(2,146)
Transportation	293,951	318,785	(24,834)
General Government	627,985	721,061	(93,076)
Capital Outlay	2,498	2,963	(465)
<b>Total</b>	<b><u><u>\$4,408,828</u></u></b>	<b><u><u>\$4,248,921</u></u></b>	<b><u><u>\$159,907</u></u></b>

General Fund expenditures increased \$159,907, or 4% 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 increases in salaries and wages. This increase was the result of retirement benefits paid to the recreation superintendent as well as salary raises for other parks employees. A decrease in general government was the result of a decrease in tax refunds paid.

## **CITY OF WAUSEON, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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*Income Tax Capital Improvement Fund* – The Income Tax Capital Improvement fund balance increased approximately 42%. Revenues and expenditures increased substantially due to Ohio Department of Transportation grants received for improvements to Linfoot Street. In addition, \$1.4 million of bond proceeds were received for pool improvements.

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 2016 the City amended its General Fund budget several times, none significant.

For the General Fund, original budgeted, final budgeted and actual budget basis revenues were not significantly different. Actual budget basis expenditures of \$4.6 million were 5% less than final and original budget estimates.

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

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

At the end of 2016 the City had \$30,113,319 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, equipment and vehicles. Of this total, \$15,114,595 was related to governmental activities and \$14,998,724 to the business-type activities. The following tables show 2016 and 2015 balances:

	Governmental Activities		Increase (Decrease)
	2016	2015	
Land	\$1,504,579	\$1,538,017	(\$33,438)
Construction In Progress	0	737,605	(737,605)
Buildings	3,643,626	3,583,560	60,066
Improvements Other than Buildings	3,651,037	3,580,698	70,339
Machinery and Equipment	4,535,502	4,416,628	118,874
Infrastructure	10,828,505	7,514,542	3,313,963
Less: Accumulated Depreciation	(9,048,654)	(8,531,351)	(517,303)
Totals	<u>\$15,114,595</u>	<u>\$12,839,699</u>	<u>\$2,274,896</u>

An increase in infrastructure can be attributed to the Linfoot Street improvement project. Significant additions to machinery and equipment consisted of three trucks and a loader in the street department.



## CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2016	2015	
Land	\$103,710	\$103,710	\$0
Buildings	8,578,770	8,420,302	158,468
Improvements other than Buildings	15,388,999	15,388,999	0
Machinery and Equipment	5,507,519	5,454,844	52,675
Less: Accumulated Depreciation	(14,580,274)	(13,964,172)	(616,102)
Totals	\$14,998,724	\$15,403,683	(\$404,959)

Additions to buildings included improvements to a water plant clarifier as well as machinery and equipment purchases at the water plant.

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, 2016 and 2015:

	2016	2015
Governmental Activities:		
General Obligation Bonds	\$3,330,000	\$2,335,000
Net Pension Liability	4,522,676	2,832,429
Compensated Absences	343,739	401,304
Total Governmental Activities	8,196,415	5,568,733
Business-Type Activities:		
Ohio Water Development Authority Loans	2,502,118	2,643,931
Long Term Note Payable	1,137,000	1,350,000
Net Pension Liability	1,011,315	746,944
Compensated Absences	92,363	56,423
Total Business-Type Activities	4,742,796	4,797,298
Totals	\$12,939,211	\$10,366,031

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, 2016, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

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

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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### **ECONOMIC FACTORS**

The City of Wauseon is the county seat of Fulton County, located in the northwest corner of Ohio. The City's main source of revenue is a 1.5% income tax levied on residents of the City and nonresidents working within the City. Income tax revenues collected are allocated between the General Fund and the Capital Projects Fund. Income tax receipts for 2016 were up by approximately 4.79% when compared to 2015.

The City continues to show signs of economic recovery and stability as income tax receipts have been increasing steadily for the past six (6) years. Conservative budgeting continues to be a reflection of the general economic climate as well as State mandated local government funds reduction and the elimination of the estate tax. Continued employment is key to the stability and growth of the City's revenue stream.

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

### **REQUESTS FOR INFORMATION**

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

## CITY OF WAUSEON, OHIO

### Statement of Net Position December 31, 2016

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 3,455,861	\$ 3,661,989	\$ 7,117,850
Investments	1,187,636	930,995	2,118,631
Receivables:			
Taxes	1,197,583	0	1,197,583
Accounts	112,218	368,930	481,148
Intergovernmental	296,003	0	296,003
Interest	2,849	0	2,849
Special Assessments	1,075,427	0	1,075,427
Loans	89,672	133,646	223,318
Inventory of Supplies at Cost	49,893	167,261	217,154
Prepaid Items	34,865	34,346	69,211
Restricted Assets:			
Cash and Cash Equivalents	490,755	0	490,755
Cash and Cash Equivalents with Fiscal Agent	148,251	0	148,251
Non-Depreciable Capital Assets	1,504,579	103,710	1,608,289
Depreciable Capital Assets, Net	13,610,016	14,895,014	28,505,030
<b>Total Assets</b>	<b>23,255,608</b>	<b>20,295,891</b>	<b>43,551,499</b>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	592,103	382,754	974,857
OP&F	1,270,950	0	1,270,950
<b>Total Deferred Outflows of Resources</b>	<b>1,863,053</b>	<b>382,754</b>	<b>2,245,807</b>
<b>Liabilities:</b>			
Accounts Payable	22,278	38,054	60,332
Accrued Wages and Benefits	70,982	18,805	89,787
Intergovernmental Payable	3	0	3
Accrued Interest Payable	8,422	4,698	13,120
Noncurrent Liabilities:			
Due Within One Year	558,478	1,326,823	1,885,301
Due in More Than One Year:			
Net Pension Liability	4,522,676	1,011,315	5,533,991
Other Amounts Due in More Than One Year	3,115,261	2,404,658	5,519,919
<b>Total Liabilities</b>	<b>8,298,100</b>	<b>4,804,353</b>	<b>13,102,453</b>
<b>Deferred Inflows of Resources:</b>			
Property Tax Levy for Next Fiscal Year	552,693	0	552,693
Pension:			
OPERS	30,228	19,541	49,769
OP&F	65,176	0	65,176
<b>Total Deferred Inflows of Resources</b>	<b>648,097</b>	<b>19,541</b>	<b>667,638</b>
<b>Net Position:</b>			
Net Investment in Capital Assets	13,177,278	11,359,606	24,536,884
Restricted For:			
Capital Projects	1,074,687	0	1,074,687
Other Purposes	1,751,019	0	1,751,019
Unrestricted	169,480	4,495,145	4,664,625
<b>Total Net Position</b>	<b>\$ 16,172,464</b>	<b>\$ 15,854,751</b>	<b>\$ 32,027,215</b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2016**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 3,249,412	\$ 793,631	\$ 97,702	\$ 11,867
Basic Utility Services	87,609	1,640	0	0
Leisure Time Activities	639,967	3,415	0	0
Community Environment	165,839	9,692	0	0
Transportation	957,378	0	396,327	1,367,833
General Government	736,279	92,569	0	0
Interest and Fiscal Charges	108,403	0	0	0
<b>Total Governmental Activities</b>	<b>5,944,887</b>	<b>900,947</b>	<b>494,029</b>	<b>1,379,700</b>
<b>Business-Type Activities:</b>				
Water	1,526,055	1,675,361	0	0
Wastewater	1,470,271	1,483,445	0	0
<b>Total Business-Type Activities</b>	<b>2,996,326</b>	<b>3,158,806</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 8,941,213</b>	<b>\$ 4,059,753</b>	<b>\$ 494,029</b>	<b>\$ 1,379,700</b>

**General Revenues and Transfers**

Property Taxes Levied for:  
    General Purposes  
    Parks and Recreation  
Income Taxes  
Other Local Taxes  
Intergovernmental Revenues, Unrestricted  
Investment Earnings  
Miscellaneous  
Transfers  
Total General Revenues and Transfers  
  
Change in Net Position  
  
Net Position Beginning of Year  
Net Position End of Year

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,346,212)	\$ 0	\$ (2,346,212)
(85,969)	0	(85,969)
(636,552)	0	(636,552)
(156,147)	0	(156,147)
806,782	0	806,782
(643,710)	0	(643,710)
(108,403)	0	(108,403)
<u>(3,170,211)</u>	<u>0</u>	<u>(3,170,211)</u>
0	149,306	149,306
0	13,174	13,174
<u>0</u>	<u>162,480</u>	<u>162,480</u>
<u>\$ (3,170,211)</u>	<u>\$ 162,480</u>	<u>\$ (3,007,731)</u>
235,624	0	235,624
284,262	0	284,262
4,040,835	0	4,040,835
53	0	53
171,889	0	171,889
25,297	17,617	42,914
113,196	0	113,196
<u>210,545</u>	<u>(210,545)</u>	<u>0</u>
<u>5,081,701</u>	<u>(192,928)</u>	<u>4,888,773</u>
1,911,490	(30,448)	1,881,042
<u>14,260,974</u>	<u>15,885,199</u>	<u>30,146,173</u>
<u>\$ 16,172,464</u>	<u>\$ 15,854,751</u>	<u>\$ 32,027,215</u>

**CITY OF WAUSEON, OHIO**

**Balance Sheet  
Governmental Funds  
December 31, 2016**

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 369,513	\$ 2,451,680	\$ 634,668	\$ 3,455,861
Investments	131,168	833,285	223,183	1,187,636
Receivables:				
Taxes	734,866	159,406	303,311	1,197,583
Accounts	88,134	24,084	0	112,218
Intergovernmental	105,130	0	190,873	296,003
Interest	2,849	0	0	2,849
Special Assessments	740	1,074,687	0	1,075,427
Loans	0	0	89,672	89,672
Inventory of Supplies, at Cost	26,595	0	23,298	49,893
Prepaid Items	34,865	0	0	34,865
Restricted Assets:				
Cash and Cash Equivalents	0	0	490,755	490,755
Cash and Cash Equivalents with Fiscal Agent	0	0	148,251	148,251
<b>Total Assets</b>	<b>\$ 1,493,860</b>	<b>\$ 4,543,142</b>	<b>\$ 2,104,011</b>	<b>\$ 8,141,013</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 12,657	\$ 0	\$ 9,621	\$ 22,278
Accrued Wages and Benefits Payable	66,458	8	4,516	70,982
Intergovernmental Payable	3	0	0	3
<b>Total Liabilities</b>	<b>79,118</b>	<b>8</b>	<b>14,137</b>	<b>93,263</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable Amounts	198,818	1,097,812	280,778	1,577,408
Property Tax Levy for Next Fiscal Year	253,318	0	299,375	552,693
<b>Total Deferred Inflows of Resources</b>	<b>452,136</b>	<b>1,097,812</b>	<b>580,153</b>	<b>2,130,101</b>
<b>Fund Balance:</b>				
Nonspendable	61,460	0	112,970	174,430
Restricted	0	1,392,683	1,396,751	2,789,434
Committed	0	2,052,639	0	2,052,639
Assigned	311,592	0	0	311,592
Unassigned	589,554	0	0	589,554
<b>Total Fund Balance</b>	<b>962,606</b>	<b>3,445,322</b>	<b>1,509,721</b>	<b>5,917,649</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 1,493,860</b>	<b>\$ 4,543,142</b>	<b>\$ 2,104,011</b>	<b>\$ 8,141,013</b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Position Of Governmental Activities  
December 31, 2016***

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<b>Total Governmental Fund Balances</b>	\$	5,917,649
<b><i>Amounts reported for governmental activities in the statement of net position are different because</i></b>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		15,114,595
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		1,577,408
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	1,863,053	
Deferred Inflows - Pension	(95,404)	
Net Pension Liability	<u>(4,522,676)</u>	(2,755,027)
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	(3,330,000)	
Compensated Absences Payable	(343,739)	
Accrued Interest Payable	<u>(8,422)</u>	<u>(3,682,161)</u>
<b><i>Net Position of Governmental Activities</i></b>	<b>\$</b>	<b><u>16,172,464</u></b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2016**

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 3,249,322	\$ 1,004,006	\$ 286,215	\$ 4,539,543
Intergovernmental Revenue	257,245	1,528,304	362,804	2,148,353
Charges for Services	645,067	109,798	0	754,865
Licenses and Permits	79,875	0	0	79,875
Investment Earnings	20,555	2,630	2,112	25,297
Fines and Forfeitures	16,273	0	6,113	22,386
All Other Revenue	100,179	11,756	1,261	113,196
<b>Total Revenue</b>	<u>4,368,516</u>	<u>2,656,494</u>	<u>658,505</u>	<u>7,683,515</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	2,768,953	0	50,149	2,819,102
Basic Utility Services	35,494	0	0	35,494
Leisure Time Activities	500,843	0	46,275	547,118
Community Environment	179,104	3,619	8,466	191,189
Transportation	293,951	0	260,838	554,789
General Government	627,985	0	0	627,985
Capital Outlay	2,498	2,791,018	0	2,793,516
Debt Service:				
Principal Retirement	0	0	405,000	405,000
Interest & Fiscal Charges	0	0	106,963	106,963
<b>Total Expenditures</b>	<u>4,408,828</u>	<u>2,794,637</u>	<u>877,691</u>	<u>8,081,156</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(40,312)	(138,143)	(219,186)	(397,641)
<b>Other Financing Sources (Uses):</b>				
Sale of Assets	0	24,870	0	24,870
Bond Issuance	0	1,400,000	0	1,400,000
Transfers In	0	0	511,963	511,963
Transfers Out	0	(267,950)	(244,013)	(511,963)
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>1,156,920</u>	<u>267,950</u>	<u>1,424,870</u>
Net Change in Fund Balance	(40,312)	1,018,777	48,764	1,027,229
<b>Fund Balance at Beginning of Year</b>	1,003,472	2,426,545	1,460,857	4,890,874
Increase (Decrease) in Inventory	(554)	0	100	(454)
<b>Fund Balance End of Year</b>	<u>\$ 962,606</u>	<u>\$ 3,445,322</u>	<u>\$ 1,509,721</u>	<u>\$ 5,917,649</u>

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, 2016***

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,027,229

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

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

Capital Outlay	2,973,944	
Depreciation Expense	(830,413)	2,143,531

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.		210,545
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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.		(79,180)
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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.		(37,683)
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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.		379,456
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(745,327)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

General Obligation Bond Issuance	(1,400,000)	
General Obligation Bond Principal Retirement	405,000	
Accrued Interest Payable	(1,440)	(996,440)

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	9,813	
Change in Inventory	(454)	9,359

<b><i>Change in Net Position of Governmental Activities</i></b>		<b><u>\$ 1,911,490</u></b>
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See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 3,189,800	\$ 3,236,888	\$ 3,236,895	\$ 7
Intergovernmental Revenue	238,450	258,495	258,510	15
Charges for Services	724,500	696,840	696,908	68
Licenses and Permits	18,000	79,976	79,982	6
Investment Earnings	12,000	19,550	19,917	367
Fines and Forfeitures	21,200	17,020	17,018	(2)
All Other Revenues	200,500	99,893	99,891	(2)
Total Revenues	<u>4,404,450</u>	<u>4,408,662</u>	<u>4,409,121</u>	<u>459</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	2,836,899	2,932,149	2,856,026	76,123
Basic Utility Services	60,228	48,728	37,944	10,784
Leisure Time Activities	690,705	568,705	513,190	55,515
Community Environment	220,547	204,075	187,258	16,817
Transportation	401,039	373,039	358,335	14,704
General Government	734,422	750,432	661,995	88,437
Capital Outlay	5,000	5,000	2,498	2,502
Total Expenditures	<u>4,948,840</u>	<u>4,882,128</u>	<u>4,617,246</u>	<u>264,882</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(544,390)	(473,466)	(208,125)	265,341
<b>Other Financing Sources (Uses):</b>				
Transfers In	150,000	0	0	0
Total Other Financing Sources (Uses):	<u>150,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(394,390)	(473,466)	(208,125)	265,341
Fund Balance at Beginning of Year	557,989	557,989	557,989	0
Prior Year Encumbrances	90,196	90,196	90,196	0
Fund Balance at End of Year	<u>\$ 253,795</u>	<u>\$ 174,719</u>	<u>\$ 440,060</u>	<u>\$ 265,341</u>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Net Position  
Proprietary Funds  
December 31, 2016**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>Assets:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,512,322	\$ 2,149,667	\$ 3,661,989
Investments	0	930,995	930,995
Receivables:			
Accounts	188,007	180,923	368,930
Loans	133,646	0	133,646
Inventory of Supplies at Cost	156,747	10,514	167,261
Prepaid Items	7,017	27,329	34,346
Total Current Assets	<u>1,997,739</u>	<u>3,299,428</u>	<u>5,297,167</u>
Noncurrent Assets:			
Capital Assets, Net	7,221,682	7,777,042	14,998,724
<b>Total Assets</b>	<u>9,219,421</u>	<u>11,076,470</u>	<u>20,295,891</u>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	206,117	176,637	382,754
<b>Total Deferred Outflows of Resources</b>	<u>206,117</u>	<u>176,637</u>	<u>382,754</u>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts Payable	26,268	11,786	38,054
Accrued Wages and Benefits	9,974	8,831	18,805
Compensated Absences Payable - Current	18,624	24,603	43,227
Accrued Interest Payable	4,698	0	4,698
General Obligation Notes Payable	1,137,000	0	1,137,000
OWDA Loans Payable - Current	17,222	129,374	146,596
Total Current Liabilities	<u>1,213,786</u>	<u>174,594</u>	<u>1,388,380</u>
Noncurrent Liabilities:			
OWDA Loans Payable	116,424	2,239,098	2,355,522
Compensated Absences Payable	27,695	21,441	49,136
Net Pension Liability	544,603	466,712	1,011,315
Total Noncurrent Liabilities	<u>688,722</u>	<u>2,727,251</u>	<u>3,415,973</u>
<b>Total Liabilities</b>	<u>1,902,508</u>	<u>2,901,845</u>	<u>4,804,353</u>
<b>Deferred Inflows of Resources:</b>			
Pension:			
OPERS	10,523	9,018	19,541
<b>Total Deferred Inflows of Resources</b>	<u>10,523</u>	<u>9,018</u>	<u>19,541</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	5,951,036	5,408,570	11,359,606
Unrestricted	1,561,471	2,933,674	4,495,145
<b>Total Net Position</b>	<u>\$ 7,512,507</u>	<u>\$ 8,342,244</u>	<u>\$ 15,854,751</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, 2016**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<b>Operating Revenues:</b>			
Charges for Services	\$ 1,634,163	\$ 1,480,687	\$ 3,114,850
<b>Total Operating Revenues</b>	<u>1,634,163</u>	<u>1,480,687</u>	<u>3,114,850</u>
<b>Operating Expenses:</b>			
Personal Services	599,193	541,100	1,140,293
Contractual Services	263,072	187,267	450,339
Materials and Supplies	341,834	251,301	593,135
Depreciation	241,158	399,142	640,300
<b>Total Operating Expenses</b>	<u>1,445,257</u>	<u>1,378,810</u>	<u>2,824,067</u>
<b>Operating Income</b>	188,906	101,877	290,783
<b>Non-Operating Revenues (Expenses):</b>			
Interest Income	3,864	13,753	17,617
Interest and Fiscal Charges	(17,286)	(82,251)	(99,537)
Loss on Disposal of Capital Assets	(429)	(3,390)	(3,819)
Other Nonoperating Revenue	41,198	2,758	43,956
Other Nonoperating Expense	(113,083)	(166,365)	(279,448)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(85,736)</u>	<u>(235,495)</u>	<u>(321,231)</u>
<b>Change in Net Position</b>	103,170	(133,618)	(30,448)
<b>Net Position Beginning of Year</b>	<u>7,409,337</u>	<u>8,475,862</u>	<u>15,885,199</u>
<b>Net Position End of Year</b>	<u>\$ 7,512,507</u>	<u>\$ 8,342,244</u>	<u>\$ 15,854,751</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, 2016**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,686,040	\$1,480,926	\$3,166,966
Cash Payments for Goods and Services	(718,848)	(599,101)	(1,317,949)
Cash Payments to Employees	(602,419)	(529,199)	(1,131,618)
Net Cash Provided by Operating Activities	<u>364,773</u>	<u>352,626</u>	<u>717,399</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(196,800)	(288,616)	(485,416)
Notes Issued	1,137,000	0	1,137,000
Note Retirement	(1,350,000)	0	(1,350,000)
OWDA Loan Retirement	(16,653)	(125,160)	(141,813)
Interest Paid on All Debt	(17,576)	(82,251)	(99,827)
Net Cash Used by Capital and Related Financing Activities	<u>(444,029)</u>	<u>(496,027)</u>	<u>(940,056)</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	0	(955,791)	(955,791)
Sale of Investments	0	1,250,290	1,250,290
Receipts of Interest	3,864	11,075	14,939
Net Cash Provided by Investing Activities	<u>3,864</u>	<u>305,574</u>	<u>309,438</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(75,392)	162,173	86,781
Cash and Cash Equivalents at Beginning of Year	<u>1,587,714</u>	<u>1,987,494</u>	<u>3,575,208</u>
Cash and Cash Equivalents at End of Year	<u>\$1,512,322</u>	<u>\$2,149,667</u>	<u>\$3,661,989</u>

(Continued)

**CITY OF WAUSEON, OHIO**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$188,906	\$101,877	\$290,783
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	241,158	399,142	640,300
Miscellaneous Nonoperating Revenue	57,132	2,758	59,890
Miscellaneous Nonoperating Expense	(113,083)	(166,365)	(279,448)
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:			
Increase in Accounts Receivable	(5,255)	(2,519)	(7,774)
(Increase) Decrease in Inventory	(5,135)	145	(4,990)
Decrease in Prepaid Items	369	1,293	1,662
Increase in Deferred Outflows of Resources	(139,330)	(113,218)	(252,548)
Increase in Accounts Payable	3,907	4,227	8,134
Decrease in Accrued Wages and Benefits	(25,674)	(19,635)	(45,309)
Increase in Compensated Absences	14,346	21,594	35,940
Increase in Net Pension Liability	144,019	120,352	264,371
Increase in Deferred Inflows of Resources	3,413	2,975	6,388
Total Adjustments	<u>175,867</u>	<u>250,749</u>	<u>426,616</u>
Net Cash Provided by Operating Activities	<u>\$364,773</u>	<u>\$352,626</u>	<u>\$717,399</u>

See accompanying notes to the basic financial statements

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## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

The financial statements are presented as of December 31, 2016 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 Organization**

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.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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

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

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

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred inflows of resources. Property taxes measurable as of December 31, 2016 but which are not intended to finance 2016 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 5.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2016.

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

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

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

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

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

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

## *CITY OF WAUSEON, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2016*

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

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

##### **6. Budgetary Basis of Accounting**

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

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

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	(\$40,312)
Increase (Decrease):	
Accrued Revenues at December 31, 2016 received during 2017	(479,583)
Accrued Revenues at December 31, 2015 received during 2016	520,188
Accrued Expenditures at December 31, 2016 paid during 2017	79,118
Accrued Expenditures at December 31, 2015 paid during 2016	(228,089)
2015 Prepays for 2016	36,039
2016 Prepays for 2017	(34,865)
Outstanding Encumbrances	(60,621)
Budget Basis	<u><u>(\$208,125)</u></u>

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

##### **G. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts which are reported at cost. The City allocates interest among the various funds as determined by City Ordinance. See Note 4, "Cash, Cash Equivalents and Investments." Interest revenue credited to the general fund during 2016 amounted to \$20,555, which includes \$15,953 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, 2016, 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*

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## *Notes to the Basic Financial Statements For the Year Ended December 31, 2016*

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### **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 \$1,000.

##### 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 fair market 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 fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

##### 3. Depreciation

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

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

# **CITY OF WAUSEON, OHIO**

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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

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

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

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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

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

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no special or extraordinary items to report during 2016.

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

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

##### **T. Fair Market Value**

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

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

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” and GASB Statement No. 77 “Tax Abatement Disclosures.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments, and disclosures related to all fair value measurements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**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	\$89,672	\$89,672
Prepaid Items	34,865	0	0	34,865
Supplies Inventory	26,595	0	23,298	49,893
Total Nonspendable	<u>61,460</u>	<u>0</u>	<u>112,970</u>	<u>174,430</u>
Restricted:				
Street Improvements	0	0	872,874	872,874
Parks and Recreation	0	0	6,261	6,261
Drug and Alcohol Treatment and Education	0	0	26,861	26,861
Community Development and Improvement	0	0	490,755	490,755
Capital Improvements	0	1,392,683	0	1,392,683
Total Restricted	<u>0</u>	<u>1,392,683</u>	<u>1,396,751</u>	<u>2,789,434</u>
Committed:				
Capital Improvements	0	2,052,639	0	2,052,639
Assigned:				
2017 Budget Deficit	256,172	0	0	256,172
Encumbrances	55,420	0	0	55,420
Total Assigned	<u>311,592</u>	<u>0</u>	<u>0</u>	<u>311,592</u>
Unassigned:				
	589,554	0	0	589,554
Total Fund Balances	<u><u>\$962,606</u></u>	<u><u>\$3,445,322</u></u>	<u><u>\$1,509,721</u></u>	<u><u>\$5,917,649</u></u>

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

# **CITY OF WAUSEON, OHIO**

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

#### **A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$7,607,955 and the bank balance was \$7,672,340. Federal depository insurance covered \$7,049,925 of the bank balance and \$622,415 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$622,415</u>
Total Balance	<u><u>\$622,415</u></u>

The City had restricted cash in the amount of \$490,755, 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 \$148,251, which was related to permissive tax monies held and secured by Fulton County. The City had petty cash in the amount of \$650.



**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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

**B. Investments**

The City's investments at December 31, 2016 are summarized below:

	Fair Value	Credit Rating	Concentration of Credit Risk	Investment Maturities (in Years)		
				less than 1	1-3	3-5
Money Market Mutual Fund	\$221,386	AA+ <sup>1</sup> / Aaa <sup>2</sup>	10.45%	\$221,386	\$0	\$0
Marketable CDs	924,341	AAA <sup>3</sup>	43.63%	494,520	429,821	0
FHLMC	304,041	AA+ <sup>1</sup> / Aaa <sup>2</sup>	14.35%	0	304,041	0
FNMA	668,863	AA+ <sup>1</sup> / Aaa <sup>2</sup>	31.57%	180,092	239,844	248,927
Total Investments	<u>\$2,118,631</u>		<u>100.00%</u>	<u>\$895,998</u>	<u>\$973,706</u>	<u>\$248,927</u>

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

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

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

*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	\$7,756,856	\$2,118,631
Cash with Fiscal Agent	(148,251)	
Petty Cash	(650)	
Per GASB Statement No. 3	<u>\$7,607,955</u>	<u>\$2,118,631</u>

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2016 were levied after October 1, 2015 on assessed values as of January 1, 2015, 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, 2016 was \$4.80 per \$1,000 of assessed value. The assessed value upon which the 2016 levy was based was \$115,144,340. This amount constitutes \$109,704,710 in real property assessed value and \$5,439,630 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***

As of December 31, 2016, the City provides tax incentives under one (1) program, the Community Reinvestment Area (CRA).

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 5 - TAXES (Continued)**

##### **A. Property Taxes (Continued)**

Currently, there are numerous businesses participating in this program.

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

Below is the information relevant to the disclosure of those programs for the year ending December 31, 2016.

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated (Incentives Abated) For the year 2016 (In Actual Dollars)</u>
<i>Community Reinvestment Area (CRA)</i>	
Manufacturing/Commercial	\$256,409
Residential	679
	<u>\$257,088</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, 2016 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, 2016**

**NOTE 7 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2016:

Fund	Transfer In	Transfer Out
Income Tax Capital Improvement Fund	\$0	\$267,950
Other Governmental Funds	511,963	244,013
Totals	\$511,963	\$511,963

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, 2016:

***Historical Cost:***

Class	December 31, 2015	Additions	Deletions	December 31, 2016
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$1,538,017	\$0	(\$33,438)	\$1,504,579
Construction in Progress	737,605	0	(737,605)	0
Subtotal	2,275,622	0	(771,043)	1,504,579
<b><i>Capital assets being depreciated:</i></b>				
Buildings	3,583,560	60,066	0	3,643,626
Improvements Other than Buildings	3,580,698	70,339	0	3,651,037
Machinery and Equipment	4,416,628	477,726	(358,852)	4,535,502
Infrastructure	7,514,542	3,313,963	0	10,828,505
Subtotal	19,095,428	3,922,094	(358,852)	22,658,670
Total Cost	\$21,371,050	\$3,922,094	(\$1,129,895)	\$24,163,249

***Accumulated Depreciation:***

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings	(\$2,324,385)	(\$86,693)	\$0	(\$2,411,078)
Improvements Other than Buildings	(1,082,062)	(109,802)	0	(1,191,864)
Machinery and Equipment	(2,461,718)	(320,134)	313,110	(2,468,742)
Infrastructure	(2,663,186)	(313,784)	0	(2,976,970)
Total Accumulated Depreciation	(\$8,531,351)	(\$830,413) *	\$313,110	(\$9,048,654)
<b><i>Net Value:</i></b>	\$12,839,699			\$15,114,595

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**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	\$158,432
Basic Utility Services	49,455
Leisure Time Activities	117,243
Community Environment	3,124
Transportation	421,667
General Government	80,492
Total Depreciation Expense	\$830,413

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, 2016.

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

Summary by category of changes in business-type activities capital assets at December 31, 2016:

***Historical Cost:***

Class	December 31, 2015	Additions	Deletions	December 31, 2016
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$103,710	\$0	\$0	\$103,710
<b><i>Capital assets being depreciated:</i></b>				
Buildings	8,420,302	158,468	0	8,578,770
Improvements other than Buildings	15,388,999	0	0	15,388,999
Machinery and Equipment	5,454,844	80,692	(28,017)	5,507,519
Subtotal	29,264,145	239,160	(28,017)	29,475,288
Total Cost	\$29,367,855	\$239,160	(\$28,017)	\$29,578,998

***Accumulated Depreciation:***

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings	(\$4,584,753)	(\$205,316)	\$0	(\$4,790,069)
Improvements other than Buildings	(5,005,429)	(361,538)	0	(5,366,967)
Machinery and Equipment	(4,373,990)	(73,446)	24,198	(4,423,238)
Total Accumulated Depreciation	(\$13,964,172)	(\$640,300)	\$24,198	(\$14,580,274)
<b><i>Net Value:</i></b>	\$15,403,683			\$14,998,724

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS**

##### ***Net Pension Liability***

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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

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

**CITY OF WAUSEON, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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

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

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

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

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**CITY OF WAUSEON, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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

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

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

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

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

	<u>State and Local</u>
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</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 \$217,739 for 2016.



## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

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

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

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

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

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

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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

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

	<u>Police</u>	<u>Firefighters</u>
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %
<b>2016 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$247,207 for 2016.

***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, 2015, 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, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,575,776	\$2,958,215	\$5,533,991
Proportion of the Net Pension Liability-2016	0.014871%	0.045984%	
Proportion of the Net Pension Liability-2015	<u>0.014942%</u>	<u>0.034306%</u>	
Percentage Change	<u>(0.000071%)</u>	<u>0.011678%</u>	
Pension Expense	\$352,693	\$496,334	\$849,027

**CITY OF WAUSEON, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

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

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$757,118	\$481,484	\$1,238,602
Change in Proportionate Share	0	542,259	542,259
City contributions subsequent to the measurement date	<u>217,739</u>	<u>247,207</u>	<u>464,946</u>
Total Deferred Outflows of Resources	<u>\$974,857</u>	<u>\$1,270,950</u>	<u>\$2,245,807</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$49,769	\$8,307	\$58,076
Change in Proportionate Share	<u>0</u>	<u>56,869</u>	<u>56,869</u>
Total Deferred Inflows of Resources	<u>\$49,769</u>	<u>\$65,176</u>	<u>\$114,945</u>

\$464,946 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2017	\$165,589	\$218,711	\$384,300
2018	177,695	218,711	396,406
2019	192,728	218,711	411,439
2020	171,337	193,044	364,381
2021	0	91,924	91,924
2022	<u>0</u>	<u>17,466</u>	<u>17,466</u>
Total	<u>\$707,349</u>	<u>\$958,567</u>	<u>\$1,665,916</u>

**Actuarial Assumptions - OPERS**

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

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.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. 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 money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**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 2015 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 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
<b>Total</b>	<b>100.00 %</b>	<b>5.27 %</b>

**Discount Rate** The discount rate used to measure the total pension liability was 8 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 8 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 (7 percent) or one-percentage-point higher (9 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	\$4,103,838	\$2,575,776	\$1,286,901

**Changes between Measurement Date and Report Date** - In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

OPF's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, 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, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

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

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

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

## CITY OF WAUSEON, OHIO

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2016*

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
<b>Total</b>	<b>120.00 %</b>	

\* levered 2x

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

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

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$3,901,488	\$2,958,215	\$2,159,168

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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#### **NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

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

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, 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. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2016, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.



## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

Each year, the OPERS Board of Trustees 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 2.0% during calendar year 2016. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The 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 to the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The City's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 were \$36,290, \$38,843 and \$38,169, respectively, which were equal to the required contributions for each year.

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

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

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

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

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

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2016, 2015, and 2014 were \$3,839, \$3,342 and \$3,438 for police and \$2,535, \$1,336 and \$281 for firefighters, respectively, which were equal to the required contributions for each year.

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**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016**

**NOTE 11 - LONG-TERM OBLIGATIONS**

Activity in Long-Term Obligations in 2016 was as follows:

Interest Rate	Purpose	Maturity Date	Balance December 31, 2015	Additions	Deductions	Balance December 31, 2016	Amount Due Within One Year
<b>Governmental Activities:</b>							
General Obligation Bonds:							
2.0-5.0%	Street Improvement	2029	\$2,335,000	\$0	(\$135,000)	\$2,200,000	\$135,000
1.85%	Pool Improvements	2020	0	1,400,000	(270,000)	1,130,000	270,000
Total General Obligation Bonds			2,335,000	1,400,000	(405,000)	3,330,000	405,000
Net Pension Liability:							
Ohio Public Employees Retirement System			1,055,229	509,232	0	1,564,461	0
Ohio Police and Fire Pension Fund			1,777,200	1,181,015	0	2,958,215	0
Total Net Pension Liability			2,832,429	1,690,247	0	4,522,676	0
Compensated Absences			401,304	148,188	(205,753)	343,739	153,478
Total Governmental Activities			5,568,733	3,238,435	(610,753)	8,196,415	558,478
<b>Business-Type Activities:</b>							
Ohio Water Development Authority Loans:							
3.34%	Wastewater Treatment Plant	2031	2,493,632	0	(125,160)	2,368,472	129,374
3.39%	Tedrow Water Supply Improvements	2024	150,299	0	(16,653)	133,646	17,222
Total Ohio Water Development Authority Loans			2,643,931	0	(141,813)	2,502,118	146,596
Long Term Note Payable:							
1.00%	Water Improvements	2016	1,350,000	0	(1,350,000)	0	0
1.11%	Water Improvements	2017	0	1,137,000	0	1,137,000	1,137,000
Net Pension Liability:							
Ohio Public Employees Retirement System			746,944	264,371	0	1,011,315	0
Compensated Absences			56,423	58,715	(22,775)	92,363	43,227
Total Business-Type Activities			4,797,298	1,460,086	(1,514,588)	4,742,796	1,326,823
Total Long-Term Obligations			<u>\$10,366,031</u>	<u>\$4,698,521</u>	<u>(\$2,125,341)</u>	<u>\$12,939,211</u>	<u>\$1,885,301</u>

## **CITY OF WAUSEON, OHIO**

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

#### **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 2016 will mature on August 16, 2017 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 2015 notes payable, which matured on August 17, 2016.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

Years	<b>Governmental Activities</b>		<b>Business-Type Activities</b>			
	<b>General Obligation Bonds</b>		<b>Long Term Note</b>		<b>OWDA Loans</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$405,000	\$104,544	\$1,137,000	\$12,621	\$146,596	\$81,916
2018	420,000	96,173	0	0	151,542	77,039
2019	430,000	87,318	0	0	156,655	71,998
2020	445,000	77,696	0	0	161,942	66,783
2021	155,000	66,238	0	0	167,406	61,395
2022-2026	865,000	233,590	0	0	858,022	222,043
2027-2031	610,000	52,001	0	0	859,955	73,391
<b>Totals</b>	<b>\$3,330,000</b>	<b>\$717,560</b>	<b>\$1,137,000</b>	<b>\$12,621</b>	<b>\$2,502,118</b>	<b>\$654,565</b>

The City's total debt margin was \$8,760,156 at December 31, 2016. The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2016, 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	\$26,671,208/1,000	per occurrence
Personal Property	\$8,041,200/1,000	per occurrence
Automobile/Equipment	\$2,667,522/500-1,000	per occurrence

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

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

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

#### **NOTE 13 - CONTINGENCIES**

##### **A. Grants**

The City received financial assistance from State and Federal agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2016.

##### **B. Litigation**

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2016***

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

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

*CITY OF WAUSEON, OHIO*

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*REQUIRED SUPPLEMENTAL INFORMATION*

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**CITY OF WAUSEON, OHIO**

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

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**Ohio Public Employees Retirement System**

Year	<u>2013</u>	<u>2014</u>	<u>2015</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-employee 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-employee 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>2013</u>	<u>2014</u>	<u>2015</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-employee payroll	\$735,191	\$740,729	\$968,361
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee 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.

Information prior to 2013 is not available.

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



## **CITY OF WAUSEON, OHIO**

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

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

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

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

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

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

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.

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**CITY OF WAUSEON  
FULTON COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<i>Passed Through Ohio Office of Criminal Justice Services</i>			
Violence Against Women Formula Grant	16.588	2015-WF-VA5-8112	\$ 47,857
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-JG-A02-6958	11,867
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-JG-LLE-5090	7,222
Total Edward Bryne Memorial Justice Assistance Program			<u>19,089</u>
<b>Total U.S. Department of Justice</b>			<b><u>66,946</u></b>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
<i>Passed through Ohio Department of Transportation</i>			
Highway Planning and Construction Grant	20.205	92162	<u>1,520,714</u>
Total U.S. Department of Transportation			<u>1,520,714</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 1,587,660</u></b>

**CITY OF WAUSEON  
FULTON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Wauseon, Fulton County, Ohio (the City's) under programs of the federal government for the year ended December 31, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



# Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 7, 2017.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 7, 2017



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Members of Council:

### ***Report on Compliance for the Major Federal Program***

We have audited the City of Wauseon, Fulton County, Ohio's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the City of Wauseon's major federal program for the year ended December 31, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal program.

### ***Management's Responsibility***

The City's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the City's compliance for the City's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the City of Wauseon complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2016.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246  
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

[www.ohioauditor.gov](http://www.ohioauditor.gov)

**Report on Internal Control Over Compliance**

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

September 7, 2017



CITY OF WAUSEON  
FULTON COUNTY

SCHEDULE OF FINDINGS  
2 CFR § 200.515  
DECEMBER 31, 2016

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Highway Planning and Construction Grant - CFDA #20.205
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

CITY OF WAUSEON  
FULTON COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
2 CFR 200.511(b)  
DECEMBER 31, 2016

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Material Weakness due to errors over recognition of grants receivable and inventory amounts.	Corrective Action Taken and Finding is Fully Corrected	



# Dave Yost • Auditor of State

CITY OF WAUSEON

FULTON COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 26, 2017