bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

# CITY OF FOSTORIA
# SENECA COUNTY, OHIO

## REGULAR AUDIT

For the Year Ended December 31, 2017
Fiscal Year Audited Under GAGAS: 2017

One East Campus View Blvd. Suite 300 • Columbus, OH 43235 • (614) 389-5775 • FAX (614) 467-3920
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City Council
City of Fostoria
213 S Main Street
Fostoria, Ohio 44830

We have reviewed the *Independent Auditor's Report* of the City of Fostoria, Seneca County, prepared by BHM CPA Group Inc., for the audit period January1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

September 18, 2018

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**CITY OF FOSTORIA**
**SENECA COUNTY**
TABLE OF CONTENTS

**CITY OF FOSTORIA**
**SENECA COUNTY**
TABLE OF CONTENTS

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**Independent Auditor's Report**

City of Fostoria
Seneca County
213 South Main Street
Fostoria, Ohio 44830

To the Members of City 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 Fostoria, Seneca County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no 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.



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***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 City of Fostoria, Seneca County, Ohio, as of December 31, 2017, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Fostoria Revolving Loan Fund, and WSOS Housing Rehabilitation Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
August 28, 2018

**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

## Financial Highlights

Key financial highlights for 2017 are as follows:

- The total net position of the City increased $663,679. Net position of governmental activities decreased $90,204 or 0.94% from 2016 net position and net position of business-type activities increased $753,883 or 2.40% from 2016 net position.

- General revenues accounted for $6,890,061 or 70.60% of total governmental activities revenue. Program specific revenues accounted for $2,869,060 or 29.40% of total governmental activities revenue.

- The City had $9,852,728 in expenses related to governmental activities; $2,869,060 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of $6,890,061 were not adequate to cover the remaining expenses of the governmental activities of $6,983,668.

- The general fund had revenues of $6,909,687 in 2017. The expenditures and other financing uses of the general fund totaled $7,103,213 in 2017. The net decrease in fund balance for the general fund was $193,526 or 117.42%.

- The Fostoria revolving loan fund had revenues of $31,632 in 2017. The expenditures of the Fostoria revolving loan fund totaled $19,291 in 2017. The net increase in fund balance for the Fostoria revolving loan fund was $12,341 or 0.61%.

- The WSOS housing rehabilitation fund had revenues of $929,150 in 2017. The expenditures of the WSOS housing rehabilitation fund totaled $934,881 in 2017. The net decrease in fund balance for the WSOS housing rehabilitation fund was $5,731 or 17.56%.

- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2017 by $753,883. This increase in net position was due primarily to an increase in other operating revenues.

- In the general fund, the actual revenues and other financing sources were $65,581 more than in the final budget and actual expenditures and other financing uses were $9,305 more than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were $185,000 more than in the original budget. Budgeted expenditures and other financing uses stayed the same from original to the final budget.

## Using this Annual Financial Report

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

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

## Reporting the City as a Whole

### *Statement of Net position and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets and deferred outflows of resources, liabilities and deferred inflows or resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

## Reporting the City's Most Significant Funds

### *Fund Financial Statements*

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

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

### *Governmental Funds*

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

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

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

***Proprietary Funds***

The City maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City has no internal service funds.

***Fiduciary Funds***

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

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability.

## Government-Wide Financial Analysis

The table below provides a summary of the City's net position at December 31, 2017 and December 31, 2016.

**Net Position**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Assets | | | | | | |
| Current and other assets | $ 7,614,898 | $ 5,664,258 | $ 6,523,419 | $ 5,322,678 | $ 14,138,317 | $ 10,986,936 |
| Capital assets, net | 13,545,656 | 14,163,478 | 34,954,651 | 35,193,709 | 48,500,307 | 49,357,187 |
| Total assets | 21,160,554 | 19,827,736 | 41,478,070 | 40,516,387 | 62,638,624 | 60,344,123 |
| Deferred outflows of resources | 2,915,780 | 3,876,428 | 1,185,476 | 884,227 | 4,101,256 | 4,760,655 |
| Liabilities | | | | | | |
| Long-term liabilities outstanding | 1,383,652 | 1,570,598 | 6,862,454 | 7,329,247 | 8,246,106 | 8,899,845 |
| Net pension liability | 9,965,947 | 11,383,137 | 2,968,232 | 2,297,712 | 12,934,179 | 13,680,849 |
| Other liabilities | 446,525 | 419,319 | 528,928 | 262,847 | 975,453 | 682,166 |
| Total liabilities | 11,796,124 | 13,373,054 | 10,359,614 | 9,889,806 | 22,155,738 | 23,262,860 |
| Deferred inflows of resources | | | | | | |
| Property taxes levied for the next fiscal year | 1,523,886 | 634,901 | - | - | 1,523,886 | 634,901 |
| Payment in lieu of taxes levied for next fiscal year | 7,916 | 13,378 | - | - | 7,916 | 13,378 |
| Pension | 1,226,159 | 70,378 | 106,787 | 67,546 | 1,332,946 | 137,924 |
| Total deferred inflows | 2,757,961 | 718,657 | 106,787 | 67,546 | 2,864,748 | 786,203 |
| Net Position | | | | | | |
| Net investment in capital assets | 13,461,662 | 13,927,638 | 28,414,823 | 28,446,356 | 41,876,485 | 42,373,994 |
| Restricted | 4,308,622 | 3,687,735 | - | - | 4,308,622 | 3,687,735 |
| Unrestricted (deficit) | (8,248,035) | (8,002,920) | 3,782,322 | 2,996,906 | (4,465,713) | (5,006,014) |
| Total net position | $ 9,522,249 | $ 9,612,453 | $ 32,197,145 | $ 31,443,262 | $ 41,719,394 | $ 41,055,715 |

The City adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises 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.

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.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2017, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $41,719,394. At year-end, net position was $9,522,249 and $32,197,145 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 77.43% of total assets. Capital assets include land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, and infrastructure. Net investment in capital assets at December 31, 2017, were $13,461,662 and $28,414,823 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, $4,308,622, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance is a deficit unrestricted net position balance of $8,248,035.

The table below shows the changes in net position for 2017 and 2016.

**Change in Net Position**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Revenues:** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 589,851 | $ 800,675 | $ 6,685,107 | $ 6,823,166 | $ 7,274,958 | $ 7,623,841 |
| Operating grants and contributions | 2,177,224 | 1,238,298 | - | - | 2,177,224 | 1,238,298 |
| Capital grants and contributions | 101,985 | 140,909 | - | 76,420 | 101,985 | 217,329 |
| Total program revenues | 2,869,060 | 2,179,882 | 6,685,107 | 6,899,586 | 9,554,167 | 9,079,468 |
| General revenues: | | | | | | |
| Property taxes | 534,602 | 771,476 | - | - | 534,602 | 771,476 |
| Income taxes | 5,644,519 | 4,727,921 | - | - | 5,644,519 | 4,727,921 |
| Unrestricted grants and entitlements | 219,714 | 269,404 | - | - | 219,714 | 269,404 |
| Investment earnings | 9,339 | 10,103 | - | - | 9,339 | 10,103 |
| Refunds and reimbursements | 205,428 | - | - | - | 205,428 | - |
| Miscellaneous | 276,459 | 43,583 | 80,387 | 55,389 | 356,846 | 98,972 |
| Total general revenues | 6,890,061 | 5,822,487 | 80,387 | 55,389 | 6,970,448 | 5,877,876 |
| Total revenues | 9,759,121 | 8,002,369 | 6,765,494 | 6,954,975 | 16,524,615 | 14,957,344 |
| **Expenses:** | | | | | | |
| General government | 1,293,094 | 1,215,238 | - | - | 1,293,094 | 1,215,238 |
| Security of persons and property | 5,967,946 | 5,771,390 | - | - | 5,967,946 | 5,771,390 |
| Public health and welfare | 250,237 | 356,392 | - | - | 250,237 | 356,392 |
| Transportation | 1,067,163 | 1,198,343 | - | - | 1,067,163 | 1,198,343 |
| Community environment | 1,202,355 | 276,003 | - | - | 1,202,355 | 276,003 |
| Leisure time activity | 63,635 | 235,477 | - | - | 63,635 | 235,477 |
| Other | - | 54 | - | - | - | 54 |
| Interest and fiscal charges | 8,298 | 10,475 | - | - | 8,298 | 10,475 |
| Water | - | - | 3,224,857 | 3,399,922 | 3,224,857 | 3,399,922 |
| Sewer | - | - | 2,783,351 | 3,434,860 | 2,783,351 | 3,434,860 |
| Total expenses | 9,852,728 | 9,063,372 | 6,008,208 | 6,834,782 | 15,860,936 | 15,898,154 |
| Increase (decrease) in net position before transfers | (93,607) | (1,061,003) | 757,286 | 120,193 | 663,679 | (940,810) |
| Transfers | 3,403 | - | (3,403) | - | - | - |
| Change in net position | (90,204) | (1,061,003) | 753,883 | 120,193 | 663,679 | (940,810) |
| Net position at beginning of year | 9,612,453 | 10,673,456 | 31,443,262 | 31,323,069 | 41,055,715 | 41,996,525 |
| Net position at end of year | $ 9,522,249 | $ 9,612,453 | $ 32,197,145 | $ 31,443,262 | $ 41,719,394 | $ 41,055,715 |

**Governmental Activities**

Governmental activities net position decreased $90,204 in 2017.

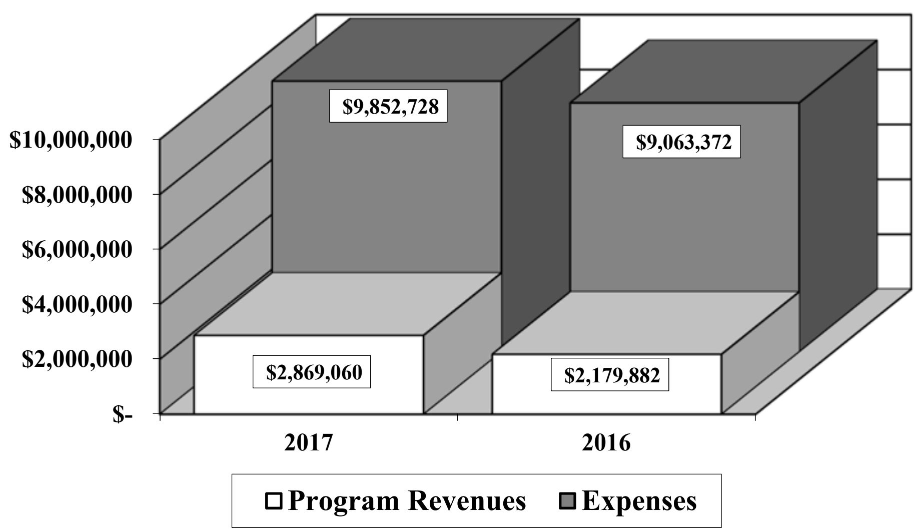
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for $5,967,946 of the total expenses of the City. These expenses were partially funded by $365,097 in direct charges to users of the services and $100,314 in operating grants and contributions. Transportation expenses totaled $1,067,163. Transportation expenses were partially funded by $4,499 in direct charges to users of the services, $656,789 in operating grants and contributions and $101,985 in capital grants and contributions.

The state and federal government contributed to the City a total of $2,177,224 in operating grants and contributions and $101,985 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, $44,200 subsidized public health and welfare programs, $1,354,664 subsidized community environment programs and $656,789 subsidized transportation programs. Of the capital grants and contributions, $101,985 subsidized transportation programs.

General revenues totaled $6,890,061 and amounted to 70.60% of total governmental revenues. These revenues primarily consist of property and income tax revenue of $6,179,121. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up $219,714.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities – Program Revenues vs. Total Expenses**

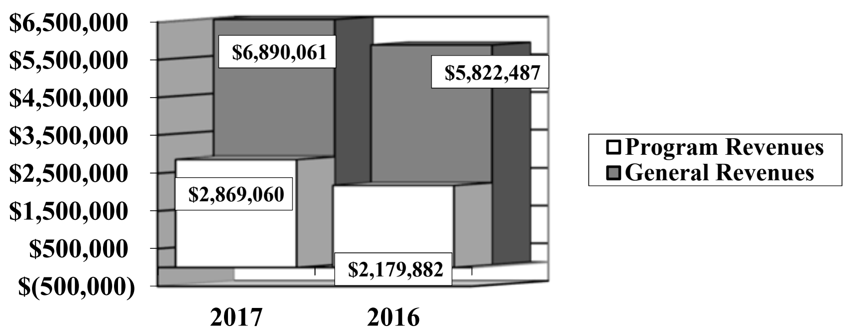


**Governmental Activities**

| | Total Cost of Services 2017 | Net Cost of Services 2017 | Total Cost of Services 2016 | Net Cost of Services 2016 |
|---|---|---|---|---|
| Program Expenses: | | | | |
| General government | $ 1,293,094 | $ 1,137,880 | $ 1,215,238 | $ 1,007,179 |
| Security of persons and property | 5,967,946 | 5,502,535 | 5,771,390 | 5,350,189 |
| Public health and welfare | 250,237 | 162,010 | 356,392 | 213,906 |
| Transportation | 1,067,163 | 303,890 | 1,198,343 | 467,663 |
| Community environment | 1,202,355 | (173,323) | 276,003 | (235,884) |
| Leisure time activity | 63,635 | 42,378 | 235,477 | 69,908 |
| Other | - | - | 54 | 54 |
| Interest and fiscal charges | 8,298 | 8,298 | 10,475 | 10,475 |
| Total | $ 9,852,728 | $ 6,983,668 | $ 9,063,372 | $ 6,883,490 |

The dependence upon general revenues for governmental activities is apparent, with 70.88% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**

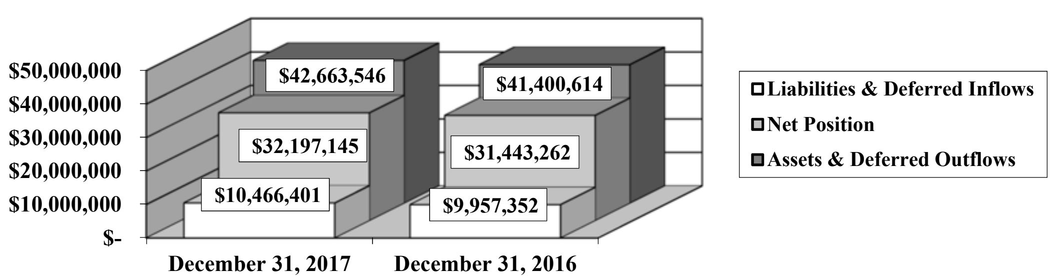



**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of $6,685,107, general revenues of $80,387, expenses of $6,008,208 and transfers out of $3,403 for 2017.

The graph below shows the business-type activities assets, liabilities and net position at year-end.

**Net position in Business – Type Activities**



**Financial Analysis of the Government's Funds**

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

***Governmental Funds***

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

The City's governmental funds reported a combined fund balance of $3,840,699 which is $584,750 more than last year's total of $3,255,949. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2017 for all major and nonmajor governmental funds.

| | Fund Balances (Deficit) 12/31/17 | Fund Balances (Deficit) 12/31/16 | Change |
|---|---|---|---|
| Major funds: | | | |
| General | $ (358,346) | $ (164,820) | $ (193,526) |
| Fostoria revolving loan | 2,020,802 | 2,008,461 | 12,341 |
| WSOS Housing Rehabilitation | 26,915 | 32,646 | (5,731) |
| Other nonmajor governmental funds | 2,151,328 | 1,379,662 | 771,666 |
| Total | $ 3,840,699 | $ 3,255,949 | $ 584,750 |

***General Fund***

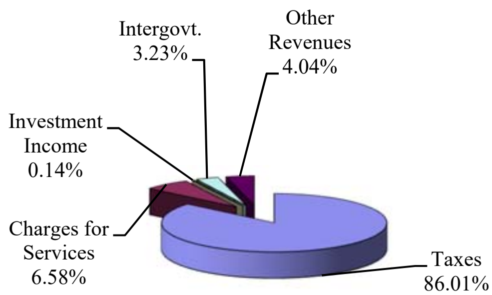
The City's general fund balance decreased $193,526.

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

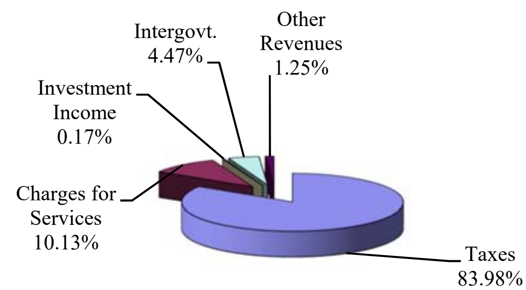
| | 2017 Amount | 2016 Amount | Percentage Change |
|---|---|---|---|
| **Revenues** | | | |
| Taxes | $ 5,943,225 | $ 5,041,484 | 17.89 % |
| Charges for services | 454,573 | 608,275 | (25.27) % |
| Licenses and permits | 25,956 | 30,688 | (15.42) % |
| Fines and forfeitures | 805 | 455 | 76.92 % |
| Intergovernmental | 222,919 | 268,294 | (16.91) % |
| Investment income | 9,339 | 10,103 | (7.56) % |
| Refunds and reimbursements | 41,322 | - | 100.00 % |
| Contributions and donations | - | 97 | (100.00) % |
| Other | 211,548 | 43,583 | 385.39 % |
| Total | $ 6,909,687 | $ 6,002,979 | 15.10 % |

Tax revenue represents 86.01% of all general fund revenue. Charges for services decreased 25.27% or $153,702 due to a decrease in various services being purchased. Other revenues increase primarily due to an increase in rental income. All other revenues remained consistent with prior year.

**Revenues – 2017**




**Revenues – 2016**

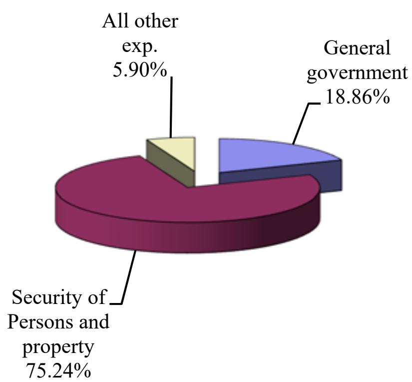



The table that follows assists in illustrating the expenditures of the general fund.

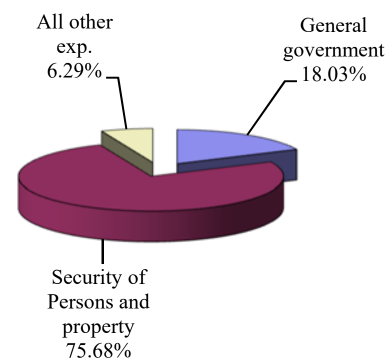
| | 2017 Amount | 2016 Amount | Percentage Change |
|---|---|---|---|
| **Expenditures** | | | |
| General government | $ 1,138,877 | $ 1,065,913 | 6.85 % |
| Security of persons and property | 4,543,103 | 4,473,729 | 1.55 % |
| Public health and welfare | 159,033 | 167,125 | (4.84) % |
| Transportation | 82,041 | 94,059 | (12.78) % |
| Community environment | 115,773 | 110,826 | 4.46 % |
| Total | $ 6,038,827 | $ 5,911,652 | 2.15 % |

Overall expenditures of the general fund increased $127,175 or 2.15%. General government increased 6.85% or $72,964. Transportation decreased 12.78% or $12,018 due to a decreased in spending on transportation projects. Community environment increased 4.46% or $4,947 due to an increase in community development expenditures. All other expenditures remained consistent with prior year.

**Expenditures - 2017**




**Expenditures - 2016**




***Budgeting Highlights***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

In the general fund, the actual revenues and other financing sources were $65,581 less than in the final budget and actual expenditures and other financing uses were $9,305 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were $185,000 more than in the original budget. Budgeted expenditures and other financing uses stayed the same from original to the final budget.

***Fostoria Revolving Loan Fund***

The Fostoria revolving loan fund had revenues of $31,632 in 2017. The expenditures of the Fostoria revolving loan fund totaled $19,291 in 2017. The net increase in fund balance for the Fostoria revolving loan fund was $12,341 or 0.61%.

***WSOS Housing Rehabilitation Fund***

The WSOS housing rehabilitation fund had revenues of $929,150 in 2017. The expenditures of the WSOS housing rehabilitation fund totaled $934,881 in 2017. The net decrease in fund balance for the WSOS housing rehabilitation fund was $5,731 or 17.56%.

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

## Capital Assets and Debt Administration

### *Capital Assets*

At the end of 2017, the City had $48,500,307 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, $13,545,656 was reported in governmental activities and $34,954,651 was reported in business-type activities.

The following table shows December 31, 2017 balances compared to December 31, 2016.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | $ 1,932,021 | $ 1,932,021 | $ 8,429,538 | $ 8,429,538 | $ 10,361,559 | $ 10,361,559 |
| Construction in progress | 194,429 | 819,948 | 572,401 | 1,076,827 | 766,830 | 1,896,775 |
| Land improvements | 166,006 | 175,638 | - | - | 166,006 | 175,638 |
| Buildings | 1,161,993 | 1,276,128 | 6,947,860 | 7,133,720 | 8,109,853 | 8,409,848 |
| Machinery and equipment | 251,720 | 292,904 | 727,537 | 702,855 | 979,257 | 995,759 |
| Vehicles | 481,474 | 730,317 | 230,478 | 280,769 | 711,952 | 1,011,086 |
| Infrastructure | 9,358,013 | 8,936,522 | 18,046,837 | 17,570,000 | 27,404,850 | 26,506,522 |
| Totals | $ 13,545,656 | $ 14,163,478 | $ 34,954,651 | $ 35,193,709 | $ 48,500,307 | $ 49,357,187 |

The City's largest governmental capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 63.06% of the City's total governmental capital assets.

The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 49.92% of the City's total business-type capital assets. See Note 10 to the financial statements for more detail.

### *Debt Administration*

The City had the following long-term debt obligations outstanding at December 31, 2017 and 2016:

| | Governmental Activities | |
|---|---|---|
| | 2017 | 2016 |
| Special assessment bonds | $ 30,519 | $ 59,300 |
| Equipment loans and notes | 53,475 | 116,311 |
| Capital lease payable | - | 60,229 |
| Total long-term obligations | $ 83,994 | $ 235,840 |

| | Business-Type Activities | |
|---|---|---|
| | 2017 | 2016 |
| OWDA loans | $ 5,932,976 | $ 6,296,068 |
| OPWC loans | 393,305 | 451,285 |
| Total long-term obligations | $ 6,326,281 | $ 6,747,353 |

See Note 13 to the financial statements for more detail on the City's long-term obligations.

**Economic Factors and Next Year's Budgets and Rates**

The City's current population estimate as of 2017 is 13,300.

Over the past few years, the City has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy, decreased funding from both the State and Federal level, and general downsizing in industry have created a challenging economic environment for the City. The loss of jobs and reduction in industry has resulted in decreased income tax revenue projections.

The Auditor of State performed a fiscal analysis of the City of Fostoria pursuant to Section 118.03 of the Ohio Revised Code. This analysis declared that a fiscal emergency exists as of May 26, 2016.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Steve Garner, Auditor, City of Fostoria, 213 S. Main Street, Fostoria, Ohio 44830.

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**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2017

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **Assets:** | | | |
| Equity in pooled cash and cash equivalents | $ 2,592,192 | $ 5,434,522 | $ 8,026,714 |
| Cash and cash equivalents with fiscal agent | 62,106 | - | 62,106 |
| Receivables: | | | |
| Income taxes | 1,345,155 | - | 1,345,155 |
| Real and other taxes | 1,637,946 | - | 1,637,946 |
| Accounts | 127,506 | 974,598 | 1,102,104 |
| Payment in lieu of taxes | 7,916 | - | 7,916 |
| Due from other governments | 865,598 | - | 865,598 |
| Special assessments | 31,886 | - | 31,886 |
| Loans | 608,420 | - | 608,420 |
| Materials and supplies inventory | 154,883 | 59,069 | 213,952 |
| Prepayments | 178,795 | 51,117 | 229,912 |
| Net pension asset | 2,495 | 4,113 | 6,608 |
| Capital assets: | | | |
| Nondepreciable capital assets | 2,126,450 | 9,001,939 | 11,128,389 |
| Depreciable capital assets, net | 11,419,206 | 25,952,712 | 37,371,918 |
| Total capital assets, net | 13,545,656 | 34,954,651 | 48,500,307 |
| Total assets | 21,160,554 | 41,478,070 | 62,638,624 |
| **Deferred outflows of resources:** | | | |
| Pension - OPERS | 683,198 | 1,185,476 | 1,868,674 |
| Pension - OP&F | 2,232,582 | - | 2,232,582 |
| Total deferred outflows of resources | 2,915,780 | 1,185,476 | 4,101,256 |
| **Liabilities:** | | | |
| Accounts payable | 150,970 | 129,549 | 280,519 |
| Contracts payable | - | 213,547 | 213,547 |
| Accrued wages and benefits | 172,690 | 74,936 | 247,626 |
| Due to other governments | 3,335 | 1,246 | 4,581 |
| Pension and postemployment benefits payable | 119,206 | 37,897 | 157,103 |
| Accrued interest payable | 324 | 71,753 | 72,077 |
| Long-term liabilities: | | | |
| Due within one year | 384,288 | 617,047 | 1,001,335 |
| Due in more than one year: | | | |
| Net pension liability | 9,965,947 | 2,968,232 | 12,934,179 |
| Other amounts due in more than one year | 999,364 | 6,245,407 | 7,244,771 |
| Total liabilities | 11,796,124 | 10,359,614 | 22,155,738 |
| **Deferred inflows of resources:** | | | |
| Property taxes levied for the next fiscal year | 1,523,886 | - | 1,523,886 |
| Pension - OP&F | 1,172,081 | - | 1,172,081 |
| Pension - OPERS | 54,078 | 106,787 | 160,865 |
| Payment in lieu of taxes levied for the next fiscal year | 7,916 | - | 7,916 |
| Total deferred inflows of resources | 2,757,961 | 106,787 | 2,864,748 |
| **Net position:** | | | |
| Net investment in capital assets | 13,461,662 | 28,414,823 | 41,876,485 |
| Restricted for: | | | |
| Capital projects | 31,928 | - | 31,928 |
| Security of persons and property | 77,705 | - | 77,705 |
| Transportation projects | 252,904 | - | 252,904 |
| Revolving loans | 2,793,342 | - | 2,793,342 |
| Public health and welfare | 104,561 | - | 104,561 |
| Community environment | 581,870 | - | 581,870 |
| Perpetual care: | | | |
| Nonexpendable | 119,599 | - | 119,599 |
| Other purposes | 346,713 | - | 346,713 |
| Unrestricted (deficit) | (8,248,035) | 3,782,322 | (4,465,713) |
| Total net position | $ 9,522,249 | $ 32,197,145 | $ 41,719,394 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Governmental activities:** | | | | |
| General government | $ 1,293,094 | $ 155,214 | $ - | $ - |
| Security of persons and property | 5,967,946 | 365,097 | 100,314 | - |
| Public health and welfare | 250,237 | 44,027 | 44,200 | - |
| Transportation | 1,067,163 | 4,499 | 656,789 | 101,985 |
| Community environment | 1,202,355 | 21,014 | 1,354,664 | - |
| Leisure time activity | 63,635 | - | 21,257 | - |
| Interest and fiscal charges | 8,298 | - | - | - |
| Total governmental activities | 9,852,728 | 589,851 | 2,177,224 | 101,985 |
| **Business-type activities:** | | | | |
| Water | 3,224,857 | 3,352,757 | - | - |
| Sewer | 2,783,351 | 3,332,350 | - | - |
| Total business-type activities | 6,008,208 | 6,685,107 | - | - |
| Total primary government | $ 15,860,936 | $ 7,274,958 | $ 2,177,224 | $ 101,985 |

**General revenues:**
Property taxes levied for:
General purposes
Police and fire pension
Income taxes levied for:
General purposes
Grants and entitlements not restricted to specific programs
Investment earnings
Refunds and reimbursements
Miscellaneous
Total general revenues

Transfers

Change in net position

**Net position at beginning of year**

**Net position at end of year**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

| Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|
| Governmental Activities | Business-type Activities | Total |
| $ (1,137,880) | $ - | $ (1,137,880) |
| (5,502,535) | - | (5,502,535) |
| (162,010) | - | (162,010) |
| (303,890) | - | (303,890) |
| 173,323 | - | 173,323 |
| (42,378) | - | (42,378) |
| (8,298) | - | (8,298) |
| (6,983,668) | - | (6,983,668) |
| | | |
| - | 127,900 | 127,900 |
| - | 548,999 | 548,999 |
| - | 676,899 | 676,899 |
| (6,983,668) | 676,899 | (6,306,769) |
| | | |
| 472,390 | - | 472,390 |
| 62,212 | - | 62,212 |
| | | |
| 5,644,519 | - | 5,644,519 |
| 219,714 | - | 219,714 |
| 9,339 | - | 9,339 |
| 205,428 | - | 205,428 |
| 276,459 | 80,387 | 356,846 |
| 6,890,061 | 80,387 | 6,970,448 |
| 3,403 | (3,403) | - |
| (90,204) | 753,883 | 663,679 |
| 9,612,453 | 31,443,262 | 41,055,715 |
| $ 9,522,249 | $ 32,197,145 | $ 41,719,394 |

**CITY OF FOSTORIA, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

| | General | Fostoria Revolving Loan | WSOS Housing Rehabilitation | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Equity in pooled cash and cash equivalents | $ - | $ 492,259 | $ 26,915 | $ 2,073,018 | $ 2,592,192 |
| Cash and cash equivalents with fiscal agent | 29,422 | - | - | 32,684 | 62,106 |
| Receivables: | | | | | |
| Income taxes | 1,345,155 | - | - | - | 1,345,155 |
| Real and other taxes | 1,543,216 | - | - | 94,730 | 1,637,946 |
| Accounts | 127,506 | - | - | - | 127,506 |
| Due from other governments | 125,867 | - | 443,528 | 296,203 | 865,598 |
| Special assessments | - | - | - | 31,886 | 31,886 |
| Due from other funds | - | 920,123 | - | - | 920,123 |
| Loans | - | 608,420 | - | - | 608,420 |
| Payment in lieu of taxes | - | - | - | 7,916 | 7,916 |
| Interfund loans receivable | 1,176 | - | - | - | 1,176 |
| Advances to other funds | 17,450 | - | - | - | 17,450 |
| Materials and supplies inventory | - | - | - | 154,883 | 154,883 |
| Prepayments | 164,092 | - | - | 14,703 | 178,795 |
| Total assets | $ 3,353,884 | $ 2,020,802 | $ 470,443 | $ 2,706,023 | $ 8,551,152 |
| **Liabilities:** | | | | | |
| Accounts payable | $ 115,261 | $ - | $ - | $ 35,709 | $ 150,970 |
| Accrued wages and benefits | 157,272 | - | - | 15,418 | 172,690 |
| Interfund loans payable | - | - | - | 1,176 | 1,176 |
| Advances from other funds | - | - | - | 17,450 | 17,450 |
| Due to other governments | 3,111 | - | - | 224 | 3,335 |
| Pension and postemployment benefits payable | 42,608 | - | - | 76,598 | 119,206 |
| Due to other funds | 845,096 | - | - | 75,027 | 920,123 |
| Total liabilities | 1,163,348 | - | - | 221,602 | 1,384,950 |
| **Deferred inflows of resources:** | | | | | |
| Property taxes levied for the next fiscal year | 1,435,577 | - | - | 88,309 | 1,523,886 |
| Delinquent property tax revenue not available | 104,367 | - | - | 6,421 | 110,788 |
| Special assessments revenue not available | - | - | - | 31,886 | 31,886 |
| Income tax revenue not available | 918,565 | - | - | - | 918,565 |
| Nonexchange transactions revenue not available | 90,373 | - | 443,528 | 198,561 | 732,462 |
| Payment in lieu of taxes levied for the next fiscal year | - | - | - | 7,916 | 7,916 |
| Total deferred inflows of resources | 2,548,882 | - | 443,528 | 333,093 | 3,325,503 |
| **Fund balances:** | | | | | |
| Nonspendable | 181,542 | - | - | 289,185 | 470,727 |
| Restricted | - | 2,020,802 | 26,915 | 1,745,845 | 3,793,562 |
| Committed | - | - | - | 298,448 | 298,448 |
| Assigned | 151,264 | - | - | - | 151,264 |
| Unassigned (deficit) | (691,152) | - | - | (182,150) | (873,302) |
| Total fund balances (deficit) | (358,346) | 2,020,802 | 26,915 | 2,151,328 | 3,840,699 |
| Total liabilities, deferred inflows of resources and fund balances | $ 3,353,884 | $ 2,020,802 | $ 470,443 | $ 2,706,023 | $ 8,551,152 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

| | | |
|---|---|---|
| **Total governmental fund balances** | | $ 3,840,699 |
| *Amounts reported for governmental activities on the statement of net position are different because:* | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 13,545,656 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | |
| Income taxes | $ 918,565 | |
| Property taxes | 110,788 | |
| Due from other governments | 732,462 | |
| Special assessments | 31,886 | |
| Total | | 1,793,701 |
| The net pension asset and net pension liability are not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the asset, liability and related deferred inflows/ outflows are not reported in governmental funds. | | |
| Net pension asset | 2,495 | |
| Deferred outflows of resources | 2,915,780 | |
| Deferred inflows of resources | (1,226,159) | |
| Net pension liability | (9,965,947) | |
| Total | | (8,273,831) |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds. | | (324) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| Special assessment bonds payable | (30,519) | |
| Equipment loan payable | (53,475) | |
| Compensated absences payable | (1,299,658) | |
| Total | | (1,383,652) |
| **Net position of governmental activities** | | $ 9,522,249 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | General | Fostoria Revolving Loan | WSOS Housing Rehabilitation | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Municipal income taxes | $ 5,384,496 | $ - | $ - | $ - | $ 5,384,496 |
| Property and other taxes | 558,729 | - | - | 86,403 | 645,132 |
| Charges for services | 454,573 | - | - | 4,405 | 458,978 |
| Licenses and permits | 25,956 | - | - | - | 25,956 |
| Fines and forfeitures | 805 | - | - | 8,497 | 9,302 |
| Intergovernmental | 222,919 | - | 867,162 | 930,744 | 2,020,825 |
| Special assessments | - | - | - | 30,933 | 30,933 |
| Investment income | 9,339 | 31,632 | - | 2,911 | 43,882 |
| Rental income | 96,640 | - | - | 7,019 | 103,659 |
| Refunds and reimbursements | 41,322 | - | - | 164,106 | 205,428 |
| Contributions and donations | - | - | - | 100,414 | 100,414 |
| Other | 114,908 | - | 61,988 | 99,563 | 276,459 |
| Total revenues | 6,909,687 | 31,632 | 929,150 | 1,434,995 | 9,305,464 |
| **Expenditures:** | | | | | |
| Current: | | | | | |
| General government | 1,138,877 | - | - | 53,887 | 1,192,764 |
| Security of persons and property | 4,543,103 | - | - | 629,942 | 5,173,045 |
| Public health and welfare | 159,033 | - | - | 42,884 | 201,917 |
| Transportation | 82,041 | - | - | 648,185 | 730,226 |
| Community environment | 115,773 | 19,291 | 934,881 | 118,744 | 1,188,689 |
| Leisure time activity | - | - | - | 24,944 | 24,944 |
| Capital outlay | - | - | - | 50,899 | 50,899 |
| Debt service: | | | | | |
| Principal retirement | - | - | - | 151,846 | 151,846 |
| Interest and fiscal charges | - | - | - | 9,787 | 9,787 |
| Total expenditures | 6,038,827 | 19,291 | 934,881 | 1,731,118 | 8,724,117 |
| Excess (deficiency) of revenues over (under) expenditures | 870,860 | 12,341 | (5,731) | (296,123) | 581,347 |
| **Other financing sources (uses):** | | | | | |
| Transfers in | - | - | - | 1,067,789 | 1,067,789 |
| Transfers (out) | (1,064,386) | - | - | - | (1,064,386) |
| Total other financing sources (uses) | (1,064,386) | - | - | 1,067,789 | 3,403 |
| Net change in fund balances | (193,526) | 12,341 | (5,731) | 771,666 | 584,750 |
| **Fund balances (deficit) at beginning of year** | (164,820) | 2,008,461 | 32,646 | 1,379,662 | 3,255,949 |
| **Fund balances (deficit) at end of year** | $ (358,346) | $ 2,020,802 | $ 26,915 | $ 2,151,328 | $ 3,840,699 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, 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, 2017

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | | $ 584,750 |
| *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. | | |
| Capital outlay | $ 222,542 | |
| Depreciation expense | (840,364) | |
| Total | | (617,822) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Muncipal income taxes | 260,023 | |
| Property and other taxes | (110,530) | |
| Intergovernmental | 336,049 | |
| Special assessments | (31,885) | |
| Total | | 453,657 |
| Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. | | 661,091 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. | | (1,360,315) |
| Repayment of bond, lease and loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. | | |
| Special assessment bonds | 28,781 | |
| Equipment loans | 62,836 | |
| Capital leases | 60,229 | |
| Total | | 151,846 |
| In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds, an interest expenditure is reported when due. | | 1,489 |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | 35,100 |
| **Change in net position of governmental activities** | | $ (90,204) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Revenues:** | | | | |
| Municipal income taxes | $ 5,219,500 | $ 5,469,500 | $ 5,376,228 | $ (93,272) |
| Property and other taxes | 551,694 | 551,694 | 556,812 | 5,118 |
| Charges for services | 455,649 | 455,649 | 450,553 | (5,096) |
| Licenses and permits | 21,409 | 21,409 | 26,328 | 4,919 |
| Fines and forfeitures | 300 | 300 | 805 | 505 |
| Intergovernmental | 300,985 | 300,985 | 224,821 | (76,164) |
| Investment income | - | - | 9,339 | 9,339 |
| Refunds and reimbursements | 135,000 | 40,000 | 41,322 | 1,322 |
| Contributions and donations | - | 30,000 | - | (30,000) |
| Rental income | 68,000 | 68,000 | 96,640 | 28,640 |
| Other | 25,800 | 25,800 | 114,908 | 89,108 |
| Total revenues | 6,778,337 | 6,963,337 | 6,897,756 | (65,581) |
| **Expenditures:** | | | | |
| Current: | | | | |
| General government: | | | | |
| Legislative and executive | 1,036,154 | 998,104 | 983,717 | 14,387 |
| Judicial | 159,102 | 158,102 | 150,204 | 7,898 |
| Security of persons and property | 4,907,458 | 4,554,558 | 4,713,887 | (159,329) |
| Public health and welfare | 298,547 | 156,659 | 162,211 | (5,552) |
| Transportation | 198,034 | 126,834 | 77,437 | 49,397 |
| Community environment | 65,853 | 65,553 | 54,051 | 11,502 |
| Total expenditures | 6,665,148 | 6,059,810 | 6,141,507 | (81,697) |
| Excess of revenues over expenditures | 113,189 | 903,527 | 756,249 | (147,278) |
| **Other financing sources (uses):** | | | | |
| Note issuance | 94,000 | - | - | - |
| Advances (out) | - | - | (1,176) | (1,176) |
| Transfers (out) | (1,301,065) | (1,216,564) | (1,124,386) | 92,178 |
| Total other financing sources (uses) | (1,207,065) | (1,216,564) | (1,125,562) | 91,002 |
| Net change in fund balances | (1,093,876) | (313,037) | (369,313) | (56,276) |
| **Fund balance (deficit) at beginning of year** | (758,585) | (758,585) | (758,585) | - |
| **Prior year encumbrances appropriated** | 62,196 | 62,196 | 62,196 | - |
| **Fund balance (deficit) at end of year** | $ (1,790,265) | $ (1,009,426) | $ (1,065,702) | $ (56,276) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOSTORIA REVOLVING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Revenues:** | | | | |
| Investment income | $ 600 | $ 600 | $ 2,918 | $ 2,318 |
| Other | 25,499 | 254,073 | 1,293,731 | 1,039,658 |
| Total revenues | 26,099 | 254,673 | 1,296,649 | 1,041,976 |
| **Expenditures:** | | | | |
| Current: | | | | |
| Community environment | 20,000 | 20,000 | 350,581 | (330,581) |
| Total expenditures | 20,000 | 20,000 | 350,581 | (330,581) |
| Net change in fund balances | 6,099 | 234,673 | 946,068 | 711,395 |
| **Fund balances at beginning of year** | 466,314 | 466,314 | 466,314 | - |
| **Fund balance at end of year** | $ 472,413 | $ 700,987 | $ 1,412,382 | $ 711,395 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
WSOS HOUSING REHABILITATION FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **Positive (Negative)** |
| **Revenues:** | | | | |
| Intergovernmental | $ 1,200,000 | $ 1,200,000 | $ 867,162 | $ (332,838) |
| Other | 204,982 | 204,982 | 61,988 | (142,994) |
| Total revenues | 1,404,982 | 1,404,982 | 929,150 | (475,832) |
| **Expenditures:** | | | | |
| Current: | | | | |
| Community environment | 1,424,208 | 1,424,208 | 934,881 | 489,327 |
| Total expenditures | 1,424,208 | 1,424,208 | 934,881 | 489,327 |
| Net change in fund balances | (19,226) | (19,226) | (5,731) | 13,495 |
| **Fund balances at beginning of year** | 32,646 | 32,646 | 32,646 | - |
| **Fund balance at end of year** | $ 13,420 | $ 13,420 | $ 26,915 | $ 13,495 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | **Water** | **Sewer** | **Total** |
| **Assets:** | | | |
| Current assets: | | | |
| Equity in pooled cash and cash equivalents. . . . . | $ 1,902,536 | $ 3,531,986 | $ 5,434,522 |
| Receivables (net of allowance for uncollectivbles): | | | |
| Accounts . . . . . . . . . . . . . . . . . . . . . | 576,953 | 397,645 | 974,598 |
| Materials and supplies inventory . . . . . . . . . . | 45,312 | 13,757 | 59,069 |
| Prepayments . . . . . . . . . . . . . . . . . . . . . | 37,527 | 13,590 | 51,117 |
| Total current assets . . . . . . . . . . . . . . . . . . | 2,562,328 | 3,956,978 | 6,519,306 |
| Noncurrent assets: | | | |
| Net pension asset . . . . . . . . . . . . . . . . . . | 2,534 | 1,579 | 4,113 |
| Capital assets: | | | |
| Nondepreciable capital assets . . . . . . . . . . . | 8,693,701 | 308,238 | 9,001,939 |
| Depreciable capital assets, net . . . . . . . . . . . | 10,197,885 | 15,754,827 | 25,952,712 |
| Total capital assets, net. . . . . . . . . . . . . . . | 18,891,586 | 16,063,065 | 34,954,651 |
| Total noncurrent assets . . . . . . . . . . . . . . . | 18,894,120 | 16,064,644 | 34,958,764 |
| Total assets. . . . . . . . . . . . . . . . . . . . . . | 21,456,448 | 20,021,622 | 41,478,070 |
| **Deferred outflows of resources:** | | | |
| Pension - OPERS. . . . . . . . . . . . . . . . . . | 752,977 | 432,499 | 1,185,476 |
| Total deferred outflows of resources . . . . . . . . . | 752,977 | 432,499 | 1,185,476 |
| **Liabilities:** | | | |
| Current liabilities: | | | |
| Accounts payable. . . . . . . . . . . . . . . . . . | 77,316 | 52,233 | 129,549 |
| Contracts payable. . . . . . . . . . . . . . . . . . | 213,547 | - | 213,547 |
| Accrued wages and benefits . . . . . . . . . . . . | 49,823 | 25,113 | 74,936 |
| Due to other governments . . . . . . . . . . . . . | 882 | 364 | 1,246 |
| Pension and postemployment benefits payable . . . | 24,610 | 13,287 | 37,897 |
| Accrued interest payable . . . . . . . . . . . . . . | 3,515 | 68,238 | 71,753 |
| Current portion of compensated absences . . . . . | 99,190 | 78,876 | 178,066 |
| Current portion of OWDA loans . . . . . . . . . . | 124,178 | 248,984 | 373,162 |
| Current portion of OPWC loans . . . . . . . . . . | 32,645 | 33,174 | 65,819 |
| Total current liabilities. . . . . . . . . . . . . . . . | 625,706 | 520,269 | 1,145,975 |
| Long-term liabilities: | | | |
| OWDA loans . . . . . . . . . . . . . . . . . . . | 780,313 | 4,779,501 | 5,559,814 |
| OPWC loans. . . . . . . . . . . . . . . . . . . . | 139,824 | 187,662 | 327,486 |
| Compensated absences. . . . . . . . . . . . . . . | 199,480 | 158,627 | 358,107 |
| Net pension liability. . . . . . . . . . . . . . . . . | 1,828,420 | 1,139,812 | 2,968,232 |
| Total long-term liabilities. . . . . . . . . . . . . . . | 2,948,037 | 6,265,602 | 9,213,639 |
| Total liabilities . . . . . . . . . . . . . . . . . . . | 3,573,743 | 6,785,871 | 10,359,614 |
| **Deferred inflows of resources:** | | | |
| Pension - OPERS . . . . . . . . . . . . . . . . . . | 18,344 | 88,443 | 106,787 |
| Total deferred inflows of resources . . . . . . . . . | 18,344 | 88,443 | 106,787 |
| **Net position:** | | | |
| Net investment in capital assets. . . . . . . . . . . | 17,601,079 | 10,813,744 | 28,414,823 |
| Unrestricted. . . . . . . . . . . . . . . . . . . . . | 1,016,259 | 2,766,063 | 3,782,322 |
| Total net position. . . . . . . . . . . . . . . . . . | $ 18,617,338 | $ 13,579,807 | $ 32,197,145 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | **Water** | **Sewer** | **Total** |
| **Operating revenues:** | | | |
| Charges for services | $ 3,352,757 | $ 3,332,350 | $ 6,685,107 |
| Other | 68,461 | 11,926 | 80,387 |
| Total operating revenues | 3,421,218 | 3,344,276 | 6,765,494 |
| **Operating expenses:** | | | |
| Personal services | 1,741,886 | 972,983 | 2,714,869 |
| Contract services | 185,742 | 614,052 | 799,794 |
| Materials and supplies | 673,793 | 227,577 | 901,370 |
| Utilities | 238,639 | 260,789 | 499,428 |
| Depreciation | 355,959 | 578,315 | 934,274 |
| Other | 13,742 | - | 13,742 |
| Total operating expenses | 3,209,761 | 2,653,716 | 5,863,477 |
| Operating income | 211,457 | 690,560 | 902,017 |
| **Nonoperating revenues (expenses):** | | | |
| Interest expense and fiscal charges | (10,262) | (129,635) | (139,897) |
| Loss on disposal of capital assets | (4,834) | - | (4,834) |
| Total nonoperating expenses | (15,096) | (129,635) | (144,731) |
| Income before transfers | 196,361 | 560,925 | 757,286 |
| Transfer out | - | (3,403) | (3,403) |
| Change in net position | 196,361 | 557,522 | 753,883 |
| **Net position at beginning of year** | 18,420,977 | 13,022,285 | 31,443,262 |
| **Net position at end of year** | $ 18,617,338 | $ 13,579,807 | $ 32,197,145 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| **Cash flows from operating activities:** | | | |
| Cash received from customers | $ 3,343,950 | $ 3,403,711 | $ 6,747,661 |
| Cash received from other operations | 68,461 | 11,926 | 80,387 |
| Cash payments for personal services | (1,533,906) | (821,676) | (2,355,582) |
| Cash payments for contractual services | (183,205) | (598,811) | (782,016) |
| Cash payments for materials and supplies | (644,166) | (244,126) | (888,292) |
| Cash payments for utilities | (255,357) | (262,843) | (518,200) |
| Cash payments for other expenses | (13,742) | - | (13,742) |
| Net cash provided by operating activities | 782,035 | 1,488,181 | 2,270,216 |
| **Cash flows from noncapital financing activities:** | | | |
| Cash used in transfers out | - | (3,403) | (3,403) |
| Net cash used in noncapital financing activities | - | (3,403) | (3,403) |
| **Cash flows from capital and related financing activities:** | | | |
| Acquisition of capital assets | (417,878) | (68,625) | (486,503) |
| Loan issuance | 2,914 | 7,877 | 10,791 |
| Principal retirement on loans | (151,981) | (279,882) | (431,863) |
| Interest paid on loans | (11,329) | (132,970) | (144,299) |
| Net cash used in capital and related financing activities | (578,274) | (473,600) | (1,051,874) |
| Net increase in cash and cash equivalents | 203,761 | 1,011,178 | 1,214,939 |
| **Cash and cash equivalents at beginning of year** | 1,698,775 | 2,520,808 | 4,219,583 |
| **Cash and cash equivalents at end of year** | $ 1,902,536 | $ 3,531,986 | $ 5,434,522 |

- - Continued

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| **Reconciliation of operating income to net cash provided by operating activities:** | | | |
| Operating income. . . . . . . . . . . . . . . . . . . . . | $ 211,457 | $ 690,560 | $ 902,017 |
| Adjustments: | | | |
| Depreciation. . . . . . . . . . . . . . . . . . . . . . . | 355,959 | 578,315 | 934,274 |
| Changes in assets and liabilities: | | | |
| Change in materials and supplies inventory. . . . . . . | (10,639) | (1,927) | (12,566) |
| Change in accounts receivable . . . . . . . . . . . . . | (8,807) | 71,361 | 62,554 |
| Change in prepayments . . . . . . . . . . . . . . . . | (29,088) | (6,532) | (35,620) |
| Change in net pension asset . . . . . . . . . . . . . . | (349) | 179 | (170) |
| Change in deferred outflows - pension - OPERS. . . . | (262,947) | (38,302) | (301,249) |
| Change in accounts payable . . . . . . . . . . . . . . | 43,565 | 13,418 | 56,983 |
| Change in accrued wages and benefits . . . . . . . . . | 11,233 | (2,188) | 9,045 |
| Change in pension and post employment benefits payable | 19,207 | 9,465 | 28,672 |
| Change in net pension liability . . . . . . . . . . . . | 555,050 | 115,470 | 670,520 |
| Change in deferred inflows - pension - OPERS . . . | (19,089) | 58,330 | 39,241 |
| Change in due to other governments . . . . . . . . | (19,521) | (18,243) | (37,764) |
| Change in compensated absences payable. . . . . . | (63,996) | 18,275 | (45,721) |
| Net cash provided by operating activities . . . . . . . | $ 782,035 | $ 1,488,181 | $ 2,270,216 |

At December 31, 2017, the water fund purchased $213,547 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017

| | Private-Purpose Trust | Agency |
|---|---|---|
| **Assets:** | | |
| Equity in pooled cash and cash equivalents . . . . . . | $ 10,317 | $ 11,681 |
| Total assets. . . . . . . . . . . . . . . . . . . . . . . | 10,317 | $ 11,681 |
| **Liabilities:** | | |
| Undistributed monies. . . . . . . . . . . . . . . . . . . | - | $ 11,681 |
| Total liabilities . . . . . . . . . . . . . . . . . . . . . | - | $ 11,681 |
| **Net position:** | | |
| Held in trust for other purposes . . . . . . . . . . . . . | 10,317 | |
| Total net position . . . . . . . . . . . . . . . . . . . . | $ 10,317 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Private-Purpose Trust |
|---|---|
| **Additions:** | |
| Other | $ 10 |
| Change in net position | 10 |
| **Net position at beginning of year** | 10,307 |
| **Net position at end of year** | $ 10,317 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 - DESCRIPTION OF THE CITY

The City of Fostoria, Ohio (the "City"), located in Seneca County, is a politic and corporate body established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and its charter. The City operates under a Council/Mayor form of government and provides the following services to its residents: public safety, public services, recreation and development.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61 "The Financial Reporting Entity: Omnibus". The City includes in its reporting entity all funds, account groups, agencies and departments over which the City's executive or legislative branches (the Mayor or Council, respectively) exercise primary oversight responsibility. Based on application of the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39 and GASB Statement No. 61, the City evaluated potential component units (PCU) for inclusion based on financial accountability, the nature and significance of their relationship to the City, and whether exclusion would cause the financial statements to be misleading or incomplete. Among the factors considered were whether the City holds the PCU's corporate power, appoints a voting majority of the PCU's board, is able to impose its will on the PCU, or whether a financial benefit/burden relationship exists between the City and the PCU. To provide necessary services to its citizens, the City of Fostoria is divided into various departments including police, fire fighting and prevention, emergency medical services, street maintenance, parks and recreation, public service and planning, and zoning. The operation of each of these departments is directly controlled by the City through the budgetary process and therefore is included as a part of the reporting entity.

Based on the foregoing criteria, the City has no component units. The following organization is described due to their relationship to the City:

*JOINTLY GOVERNED ORGANIZATION*

*Fostoria Economic Development Corporation (FEDC)* - The City is a participant in FEDC, which is an association of businesses and government within the City. The organization was formed for the purpose of fostering economic growth, encouraging new industries, and developing employment opportunities in the City. The Governing Board of FEDC includes two representatives of the City; in addition, the City Auditor sits on the finance committee. Financial information can be obtained from Dennis Hellman, who serves as director, at 121 North Main Street, Fostoria, Ohio 44830.

The City has entered into an open-ended mortgage with FEDC. Since November 1994, the City has loaned $863,300 for the purpose of building and maintaining a spec building in the Industrial Park of the City. Upon sale of the building to an industry, FEDC will repay the loan.

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

*RELATED ORGANIZATION*

Kaubisch Memorial Public Library - The Kaubisch Memorial Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the mayor of the City of Fostoria. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the City for operational subsidies. Although the City does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kaubisch Memorial Public Library, c/o Clerk/Treasurer, at 205 Perry St., Fostoria, Ohio 44830.

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

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

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

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

***Fund Financial Statements*** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

### C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

***Governmental Funds*** - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's only major governmental funds:

*General fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Fostoria revolving loan fund* - The Fostoria revolving loan fund is used to account for other revenues restricted for community environment expenditures.

*WSOS housing rehabilitation fund* - The WSOS housing rehabilitation fund is used to account for grant revenue restricted for community housing impact and preservation.

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

***Proprietary Funds*** - Proprietary fund reporting focuses on changes in net position, financial position and cash flows. The City's only proprietary funds are enterprise funds.

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

*Water fund* - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City and to persons owning property adjacent to the corporation limits. The City also sells water to the Northwestern Water District and the Village of Arcadia.

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

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

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are private-purpose trust and agency funds. The City's private-purpose funds account for the Brubaker Trust, Henry H. Geary Jr. Trust, Laverne May Trust and Beard Flower Trust. The City's agency funds account for employee bonds, state patrol transfers, Fire Insurance Trust, First Step Domestic Violence Grant, and Community Foundation Grant.

**D. Measurement Focus and Basis of Accounting**

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

***Fund Financial Statements*** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current deferred outflows of resources, current liabilities and current deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

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

**E. Basis of Accounting**

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

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

***Deferred Outflows of Resources and Deferred Inflows of Resources*** - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, See Note 15 for deferred outflows of resources related the City's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes, special assessments and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

For the City, See Note 15 for deferred inflows of resources related to the City's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**F. Budgetary Data**

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 appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

The legal level of budgetary control is at the department/program/object level in the general fund and at the personal services level for the remaining funds. All other expenses are grouped together for the remaining funds. Although statutes require that all funds be budgeted, it is not necessary to do so if City Council does not anticipate expenditure of the available funds.

Segregated cash accounts are not included in the budgetary presentation because they are not controlled by the City and the departments do not adopt separate budgets. Advances-in and advances-out are not required to be budgeted since they represent a cash flow resource. Budgetary modifications may only be made by resolution of the City Council.

***Tax Budget*** - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is 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. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

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

***Estimated Resources*** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected 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 will 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 encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificates of estimated resources issued during 2017.

***Appropriations*** - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the legal level of budgetary control. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications, legally enacted by Council.

***Lapsing of Appropriations*** - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

### G. Cash and Cash Equivalents

Cash balances of the City's funds, are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "equity in pooled cash and cash equivalents" on the financial statements.

During 2017, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

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

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2017 amounted to $9,339, all of which was assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments, to the extent a specific fund has purchased the investment.

The Seneca County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2017 was $32,684. This account is presented on the financial statements as "cash and cash equivalents with fiscal agent". The City has segregated bank accounts for Municipal Court monies and income tax paid by credit card held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash in segregated accounts" since they are not required to be deposited into the City treasury.

### H. Inventories of Materials and Supplies

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of current assets.

### I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of $5,000. The City's infrastructure consists of bridges, curbs, sidewalks, storm sewers, streets, alleys, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

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

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

| Description | Governmental Activities Estimated Lives | Business-Type Activities Estimated Lives |
|---|---|---|
| Land improvements | 15 - 20 years | 15 - 20 years |
| Buildings | 20 - 45 years | 50 years |
| Machinery and equipment | 5 - 30 years | 5 - 20 years |
| Vehicles | 3 - 10 years | 3 - 10 years |
| Infrastructure | 10 - 50 years | 80 years |

### J. Compensated Absences

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

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or older with at least ten (10) years of service or any age with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts.

The entire compensated absence liability is reported on the government-wide financial statements.

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

### K. Accrued Liabilities and Long-Term Obligations

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

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

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

**L. Interfund Balances**

On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “advances to/from other funds”. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Interfund loans that are used to cover negative cash balances are classified as “due to/from other funds”. These amounts are eliminated in the governmental activities columns of the statement of net position.

**M. Interfund Activity**

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

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

**N. Fund Balance**

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

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

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

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

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

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

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

### O. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients.

### P. Estimates

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

### Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

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

### R. Net Position

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

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

### S. Pensions

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.

### T. Fair Value Measurements

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 3 - ACCOUNTABILITY AND COMPLIANCE

### A. Change in Accounting Principles

For 2017, the City has implemented GASB Statement No. 80, *"Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14"*, GASB Statement No. 81 *"Irrevocable Split-Interest Agreements",* and GASB Statement No. 82, *"Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73".*

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

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

**B. Deficit Fund Balances**

Fund balances at December 31, 2017 included the following individual fund deficits:

| Major fund | Deficit |
|---|---|
| General | $ 358,346 |
| | |
| Nonmajor funds | |
| Fire department grant | 16,726 |
| Airport grant | 946 |
| Grants - Brownfield | 28,894 |
| Police and fire pension | 68,545 |
| General capital improvement | 67,039 |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,

6. The State Treasury Asset Reserve of Ohio (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;

2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,

3. Obligations of the City.

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

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash in Segregated Accounts**

At year end, $29,422 was on deposit in segregated accounts for the Municipal Court, small business checking, and tax account. These accounts are included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet as "equity in pooled cash and cash equivalents".

**B. Cash with Fiscal Agent**

At December 31, 2017, $32,684 was on deposit with the City's fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as "equity in pooled cash and cash equivalents".

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Deposits with Financial Institutions**

At December 31, 2017, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was $6,626,526. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2017, $6,710,286 of the City's bank balance of $6,960,286 was exposed to custodial risk as discussed below, while $250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2017, the City's financial institutions did not participate in the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

**D. Investments**

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

| Measurement/ Investment type | Measurement Amount | Investment Maturity 6 months or less |
|---|---|---|
| Amortized Cost: | | |
| STAR Ohio | $ 1,484,292 | $ 1,484,292 |

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAm money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities to the City Auditor or qualified trustee.

## NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2017:

| Measurement/ Investment type | Measurement Amount | % to Total |
|---|---|---|
| STAR Ohio | $ 1,484,292 | 100.00 |

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2017:

| | |
|---|---|
| Cash and investments per note | |
| Carrying amount of deposits | $ 6,626,526 |
| Investments | 1,484,292 |
| Total | $ 8,110,818 |
| | |
| Cash and investments per statement of net position | |
| Governmental activities | $ 2,654,298 |
| Business-type activities | 5,434,522 |
| Private-purpose funds | 10,317 |
| Agency funds | 11,681 |
| Total | $ 8,110,818 |

## NOTE 5 - INTERFUND TRANSACTIONS

**A.** Interfund transfers for the year ended December 31, 2017, consisted of the following, as reported in the fund financial statements:

| | Transfers from | | |
|---|---|---|---|
| Transfers to | General | Sewer | Total |
| Nonmajor governmental funds | $ 1,064,386 | $ 3,403 | $ 1,067,789 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide financial statements. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

## NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

**B.** Due from/to other funds consisted of the following at December 31, 2017, as reported on the fund financial statements:

| Receivable fund | Payable fund | Amount |
|---|---|---|
| Fostoria revolving loan | General | $ 845,096 |
| Nonmajor governmental | Nonmajor governmental | 75,027 |
| Total | | $ 920,123 |

The balance resulted from a negative cash balance in the general fund and other nonmajor governmental funds at year end. The balance is eliminated on the government-wide financial statements.

**C.** Advances to/from other funds consisted of the following at December 31, 2017, as reported on the fund financial statements:

| Receivable fund | Payable fund | Amount |
|---|---|---|
| General | Nonmajor governmental | $ 17,450 |

Advances to/from other funds balances between governmental funds are eliminated on the government-wide financial statements.

**D.** Interfund loans receivable/payable consisted of the following at December 31, 2017, as reported on the fund financial statements:

| Receivable fund | Payable fund | Amount |
|---|---|---|
| General | Nonmajor governmental | $ 1,176 |

Interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

## NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2017 public utility property taxes became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

## NOTE 6 - PROPERTY TAXES - (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Fostoria. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2017 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2017 operations and the collection of delinquent taxes has been offset by a deferred inflow since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is a deferred inflow.

The full tax rate applied to real property and tangible personal property for the year ended December 31, 2017 were as follows:

Seneca County - $4.80 per $1,000 of assessed valuation
Wood County - $4.30 per $1,000 of assessed valuation
Hancock County - $3.40 per $1,000 of assessed valuation

| | | |
|---|---|---|
| Real property | | |
| Residential/agricultural | $ | 96,953,900 |
| Commercial/industrial/mineral | | 42,481,240 |
| Public utility | | 9,194,150 |
| Total assessed value | $ | 148,629,290 |

## NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 2 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2017 was $5,384,496 as reported on the fund financial statements.

## NOTE 8 - RECEIVABLES

Receivables at December 31, 2017, consisted of taxes, accounts (billings for user charged services), payment in lieu of taxes, loans, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "due from other governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2017, as well as intended to finance 2017 operations.

A summary of the receivables reported on the statement of net position follows:

| | |
|---|---|
| **Governmental activities:** | |
| Income taxes | $ 1,345,155 |
| Real and other taxes | 1,637,946 |
| Accounts | 127,506 |
| Payment in lieu of taxes | 7,916 |
| Due from other governments | 865,598 |
| Special assessments | 31,886 |
| Loans | 608,420 |
| **Business-type activities:** | |
| Accounts | 974,598 |

Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments and loans, which are collected over the life of the assessments and the loan agreements.

## NOTE 9 - LOANS RECEIVABLE

The Fostoria City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City in making loans from the City's Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2017, there were loans outstanding to businesses with a total principal balance due of $608,420.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

## NOTE 10 - CAPITAL ASSETS

| **Governmental activities:** | Balance 12/31/16 | Additions | Disposals | Balance 12/31/17 |
|---|---|---|---|---|
| *Capital assets, not being depreciated:* | | | | |
| Land | $ 1,932,021 | $ - | $ - | $ 1,932,021 |
| Construction in progress | 819,948 | 194,429 | (819,948) | 194,429 |
| Total capital assets, not being depreciated | 2,751,969 | 194,429 | (819,948) | 2,126,450 |
| *Capital assets, being depreciated:* | | | | |
| Land improvements | 579,800 | - | - | 579,800 |
| Buildings | 7,585,469 | - | - | 7,585,469 |
| Machinery and equipment | 1,878,808 | 28,113 | - | 1,906,921 |
| Vehicles | 2,937,930 | - | - | 2,937,930 |
| Infrastructure | 13,726,438 | 819,948 | - | 14,546,386 |
| Total capital assets, being depreciated | 26,708,445 | 848,061 | - | 27,556,506 |
| *Less: accumulated depreciation:* | | | | |
| Land improvements | (404,162) | (9,632) | - | (413,794) |
| Buildings | (6,309,341) | (114,135) | - | (6,423,476) |
| Machinery and equipment | (1,585,904) | (69,297) | - | (1,655,201) |
| Vehicles | (2,207,613) | (248,843) | - | (2,456,456) |
| Infrastructure | (4,789,916) | (398,457) | - | (5,188,373) |
| Total accumulated depreciation | (15,296,936) | (840,364) | - | (16,137,300) |
| Total capital assets, being depreciated, net | 11,411,509 | 7,697 | - | 11,419,206 |
| Government-type activities capital assets, net | $ 14,163,478 | $ 202,126 | $ (819,948) | $ 13,545,656 |

**NOTE 10 - CAPITAL ASSETS - (Continued)**

| **Business-type activities:** | Balance 12/31/16 | Additions | Disposals | Balance 12/31/17 |
|---|---|---|---|---|
| *Capital assets, not being depreciated:* | | | | |
| Land | $ 8,429,538 | $ - | $ - | $ 8,429,538 |
| Construction in progress | 1,076,827 | 583,192 | (1,087,618) | 572,401 |
| Total capital assets, not being depreciated | 9,506,365 | 583,192 | (1,087,618) | 9,001,939 |
| *Capital assets, being depreciated:* | | | | |
| Buildings | 14,313,513 | - | - | 14,313,513 |
| Machinery and equipment | 1,496,133 | 116,858 | - | 1,612,991 |
| Vehicles | 1,055,028 | - | (10,000) | 1,045,028 |
| Infrastructure | 28,796,034 | 1,087,618 | - | 29,883,652 |
| Total capital assets, being depreciated | 45,660,708 | 1,204,476 | (10,000) | 46,855,184 |
| *Less: accumulated depreciation:* | | | | |
| Buildings | (7,179,793) | (185,860) | - | (7,365,653) |
| Machinery and equipment | (793,278) | (92,176) | - | (885,454) |
| Vehicles | (774,259) | (45,457) | 5,166 | (814,550) |
| Infrastructure | (11,226,034) | (610,781) | - | (11,836,815) |
| Total accumulated depreciation | (19,973,364) | (934,274) | 5,166 | (20,902,472) |
| Total capital assets, being depreciated, net | 25,687,344 | 270,202 | (4,834) | 25,952,712 |
| Business-type activities capital assets, net | $ 35,193,709 | $ 853,394 | $ (1,092,452) | $ 34,954,651 |

**NOTE 10 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to functions/programs of the City as follows:

| | |
|---|---|
| **Governmental activities:** | |
| General government | $ 11,883 |
| Security of persons and property | 285,349 |
| Public health and welfare | 35,578 |
| Transportation | 461,669 |
| Community environment | 9,954 |
| Leisure time activity | 35,931 |
| Total depreciation expense - governmental activities | $ 840,364 |
| **Business-type activities:** | |
| Water | $ 355,959 |
| Sewer | 578,315 |
| Total depreciation expense - business-type activities | $ 934,274 |

**NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the City entered into capitalized lease agreements for the acquisition of heavy equipment, including salt trucks and vehicles.

These leases meet the criteria of a capital lease as defined by GASB, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital assets acquired by lease have been capitalized in the governmental activities statement of net position in the amount of $352,650. Accumulated depreciation as of December 31, 2017 was $171,785, leaving a current book value of $180,865. At inception, capital lease transactions are accounted for as a capital outlay expenditure or capital asset addition and other financing source or non-operating revenue in the appropriate fund, with a corresponding liability is recorded in the governmental activities statement of net position or enterprise fund, respectively.

Principal and interest payments in 2017 totaled $60,229 and $2,911, respectively, in the general capital improvements fund. All capital lease obligations were completely retired as of December 31, 2017.

## NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS

The City accrues unpaid vacation as it is earned and certain portions of sick leave pay as payment becomes probable.

*All employees except firefighters:* Sick leave accumulates at the rate of 4.6 hours of sick leave for 80 hours of work completed. Sick leave is accumulated and may be converted into cash upon retirement up to 135 days. Any employee who accumulates 120 sick days (960 hours) is paid on December 31st of each year a cash payment for any accumulated sick days over 120 days but such payment shall not exceed 15 days (120 hours). Individuals leaving the employment of the City prior to retirement or at retirement lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for sick leave for only the employees who are age 50 or older, or have twenty years with local government employment.

*Firefighters:* Sick leave accumulates at the rate of 10 hours per month. Any firefighter who accumulates in excess of 960 hours receives a cash payment for the amount of the excess. A firefighter who retires from the department is eligible for cash payment of the sick leave balance. A liability has been recognized in the accompanying financial statements for sick leave for firefighters who are age 50 or older, or have twenty years with local government employment.

Vacation is accumulated based upon length of service as follows:

| Uniform Service | Employee Hours Earned / Bi-weekly | Non-Uniform Service | Time Off - (Hours) |
|---|---|---|---|
| After 1 year | 80 Hours | After 1 year | 40 Hours |
| After 8 years | 120 Hours | After 2 years | 80 Hours |
| After12 years | 160 Hours | After 5 years | 98 Hours |
| After 18 years | 200 Hours | After 8 years | 120 Hours |
| After 25 years | 240 Hours | After 10 years | 136 Hours |
| | | After 12 years | 160 Hours |
| | | After 15 years | 176 Hours |
| | | After 18 years | 200 Hours |
| | | After 20 years | 216 Hours |
| | | After 25 years | 240 Hours |

The accrued vacation and sick leave benefits have been recorded on the government-wide financial statements. The liability for vacation and sick leave is accrued in the funds from which the liability will be paid.

## NOTE 13 - LONG-TERM OBLIGATIONS

**A.** During 2017, the following changes occurred in the City's governmental long-term obligations.

| | Issue Date | Interest Rate | Balance 12/31/16 | Additions | Reductions | Balance 12/31/17 | Due Within One Year |
|---|---|---|---|---|---|---|---|
| **Governmental activities:** | | | | | | | |
| Special assessment bonds: | | | | | | | |
| Kelly Addition | 07/23/98 | 5.95% | $ 59,300 | $ - | $ (28,781) | $ 30,519 | $ 30,519 |
| Total special assessment bonds | | | 59,300 | - | (28,781) | 30,519 | 30,519 |
| Other long-term obligations: | | | | | | | |
| Equipment note | | | 10,940 | - | (10,940) | - | - |
| Ambulance note | | | 105,371 | - | (51,896) | 53,475 | 53,475 |
| Capital lease obligations | | | 60,229 | - | (60,229) | - | - |
| Compensated absences payable | | | 1,334,758 | 256,448 | (291,548) | 1,299,658 | 300,294 |
| Net pension liability | | | 11,383,137 | 355,790 | (1,772,980) | 9,965,947 | - |
| Total other long-term obligations | | | 12,894,435 | 612,238 | (2,187,593) | 11,319,080 | 353,769 |
| Total governmental activities | | | $ 12,953,735 | $ 612,238 | $ (2,216,374) | $ 11,349,599 | $ 384,288 |

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## NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

**B.** During 2017, the following changes occurred in the City's business-type activities long-term obligations.

| | Interest Rate | Balance 12/31/16 | Additions | Reductions | Balance 12/31/17 | Amounts Due in One Year |
|---|---|---|---|---|---|---|
| **Business-type activities:** | | | | | | |
| OWDA loans payable: | | | | | | |
| OWDA loan #3240 | 4.55% | $ 305,493 | $ - | $ (71,180) | $ 234,313 | $ 74,535 |
| OWDA loan #5426 | 0.00% | 719,821 | - | (49,643) | 670,178 | 49,643 |
| OWDA loan #6498 | 2.57% | 4,140,290 | - | (177,337) | 3,962,953 | 181,924 |
| OWDA loan #5702 | 3.20% | 1,130,464 | - | (64,932) | 1,065,532 | 67,060 |
| Total OWDA loans | | 6,296,068 | - | (363,092) | 5,932,976 | 373,162 |
| OPWC loans payable: | | | | | | |
| Kelly Storm Sewer | 0.00% | 12,207 | - | (8,138) | 4,069 | 4,069 |
| Circle Drive | 0.00% | 2,050 | - | (2,050) | - | - |
| Sandusky Sewer Pump | 0.00% | 38,776 | - | (9,694) | 29,082 | 9,695 |
| Fremont Street Pump Station | 0.00% | 2,340 | - | (2,340) | - | - |
| Columbus Avenue CP15K | 0.00% | 69,981 | - | (3,110) | 66,871 | 3,110 |
| Culbertson Street Water Tower | 0.00% | 28,141 | - | (6,254) | 21,887 | 6,253 |
| North Poplar Street Sanitary Sewer and Waterline | 0.00% | 44,862 | - | (7,477) | 37,385 | 7,477 |
| Zeller Road South Water Tower Cleaning and Painting | 0.00% | 118,045 | - | (19,674) | 98,371 | 19,674 |
| Spruce Street Waterline Improvements | 0.00% | 8,997 | - | (1,499) | 7,498 | 1,500 |
| Jackson Street Waterline | 0.00% | 33,578 | - | (3,731) | 29,847 | 3,731 |
| Vine Street and Arbor Street Improvements | 0.00% | 48,041 | - | (4,804) | 43,237 | 4,804 |
| Central Avenue and Arbor Street Improvements | 0.00% | 44,267 | 10,791 | - | 55,058 | 5,506 |
| Total OPWC loans | | 451,285 | 10,791 | (68,771) | 393,305 | 65,819 |
| Other long-term obligations: | | | | | | |
| Compensated absences payable | | 581,894 | 127,159 | (172,880) | 536,173 | 178,066 |
| Net pension liability | | 2,297,712 | 670,520 | - | 2,968,232 | - |
| Total other long-term obligations | | 2,879,606 | 797,679 | (172,880) | 3,504,405 | 178,066 |
| Total business-type activities | | $ 9,626,959 | $ 808,470 | $ (604,743) | $ 9,830,686 | $ 617,047 |

**C.** The Ohio Public Works Commission (OPWC) loans are general obligations of the City, and will be repaid from the City's general operating revenues. Principal and interest payments are recorded in the enterprise funds. The OPWC loans are interest free, providing repayment remains current.

Special assessment bonds will be paid from the proceeds of special assessments levied against the property owners who are primarily benefited from the project. In the event that property owners fail to make their payments, the City is responsible for providing the resources to meet annual principal and interest payments.

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

On December 7, 2012, the City entered into a promissory note for fire hawk air masks respirator equipment in the amount of $51,565. This note bears an interest rate of 3.00% and matured on December 7, 2017.

On October 22, 2013, the City entered into a promissory note for an ambulance in the amount of $252,036. This note bears an interest rate of 3.00% and matures October 22, 2018.

Capital leases are paid from the general capital improvement fund.

For more detail on net pension liability see Note 15.

The compensated absences liability will be paid from the following funds: general fund, street construction, maintenance & repair fund, termination benefits fund, water fund and sewer fund.

The OPWC loan agreements require the City to insure the project against loss or damage. Any insurance policy issued shall be so written or endorsed as to make losses, if any, payable to the OPWC. Each insurance policy shall also contain a provision that the insurance company shall not cancel the policy without first giving written notice to the OPWC at least ten days in advance of such cancellation.

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer fund revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2017, the City has outstanding borrowings of $5,932,976. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through 2035. Annual principal and interest payments on the loans are expected to require 27.95 percent of net revenues. The total principal and interest remaining to be paid on the loans is $7,177,649. Principal and interest paid for the current year were $513,219 and total customer net revenues were $1,836,291.

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## NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

**D.** A summary of the City's future debt service requirements as of December 31, 2017 follows:

| Future Payment Due In | Business-Type OWDA Loans Principal | Business-Type OWDA Loans Interest | Business-Type OWDA Loans Total | Business-Type OPWC Loans Principal Only |
|---|---|---|---|---|
| 2018 | $ 373,162 | $ 141,252 | $ 514,414 | $ 65,819 |
| 2019 | 383,579 | 132,088 | 515,667 | 61,749 |
| 2020 | 394,355 | 122,623 | 516,978 | 61,749 |
| 2021 | 319,921 | 113,482 | 433,403 | 48,927 |
| 2022 | 327,422 | 105,980 | 433,402 | 45,803 |
| 2023 - 2027 | 1,757,202 | 409,811 | 2,167,013 | 73,490 |
| 2028 - 2032 | 1,697,249 | 192,997 | 1,890,246 | 15,551 |
| 2033 - 2037 | 680,086 | 26,440 | 706,526 | 15,551 |
| 2038 - 2039 | - | - | - | 4,666 |
| Total | $ 5,932,976 | $ 1,244,673 | $ 7,177,649 | $ 393,305 |

| Future Payment Due In | Governmental Special Assessment Bonds Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 30,519 | $ 1,367 | $ 31,886 |

| Future Payment Due In | Ambulance Loan Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 53,475 | $ 1,626 | $ 55,101 |

**E.** The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2017 the City's total voted debt margin was $15,606,075 and the unvoted debt margin was $8,174,611.

## NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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

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

Financial Position
PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017 and 2016:

| Casualty & Property Coverage | 2017 | 2016 |
|---|---|---|
| Assets | $44,452,326 | $42,182,281 |
| Liabilities | (13,004,011) | (13,396,700) |
| Retained earnings | $31,448,315 | $28,785,581 |

At December 31, 2017 and 2016, respectively, the liabilities above include approximately $11.8 million and $12.0 million of estimated incurred claims payable. The assets above also include approximately $11.2 million and $11.5 million of unpaid claims to be billed to approximately 527 and 520 member governments in the future, as of December 31, 2017 and 2016, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the City's share of these unpaid claims collectible in future years is approximately $79,000.

**NOTE 14 - RISK MANAGEMENT - (Continued)**

Based on discussions with PEP the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

| Contributions to PEP | |
|---|---|
| 2017 | 2016 |
| $125,437 | $124,331 |

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

The City has elected to offer employee medical insurance benefits through a plan provided by Anthem. Employees are required to pay 10% of covered expenses to an annual maximum out-of-pocket of $500 for single coverage and $1,000 for family coverage. The City pays 90% of the premium for the plans. For the plan, each month the City contributes $385.38 for single coverage and $1,284.51 for family coverage.

Dental insurance is provided through Guardian Dental with a deductible of $50 per person per year ($150 family maximum per year). The City pays a $11.35 administrative fee to Guardian Dental per month per enrolled employee and reimburses Guardian Dental for actual claims incurred.

Prescription Drug Benefits are obtained through Express Scripts. Employees are required to make a co-pay of $5 for generic prescriptions and $10 for brand prescriptions.

Vision insurance is provided through MedBen. The City pays a $2.05 administrative fee to MedBen per month per enrolled employee and reimburses MedBen for actual claims incurred.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from 2016.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability/Asset***

The net pension liability/asset reported on the statement of net position represents a liability or asset 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.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The net pension liability/asset 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/asset 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.

The 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 any net pension 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 or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits 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 Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension 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 Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

## NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 2.25%.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 2.25% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

| | State and Local |
|---|---|
| **2017 Statutory Maximum Contribution Rates** | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| | |
| **2017 Actual Contribution Rates** | |
| Employer: | |
| Pension | 13.0 % |
| Post-employment Health Care Benefits | 1.0 % |
| | |
| Total Employer | 14.0 % |
| | |
| Employee | 10.0 % |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was $332,825 for 2017. Of this amount, $58,235 is reported as pension and postemployment benefits payable.

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

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

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.50% for each of the first 20 years of service credit, 2.00% for each of the next five years of service credit and 1.50% for each year of service credit in excess of 25 years. The maximum pension of 72.00% of the allowable average annual salary is paid after 33 years of service credit.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

| | Police | Firefighters |
|---|---|---|
| **2017 Statutory Maximum Contribution Rates** | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |
| **2017 Actual Contribution Rates** | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 % | 0.50 % |
| Total Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was $535,428 for 2017. Of this amount $98,868 is reported as pension and postemployment benefits payable.

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

The net pension liability and net pension asset for the OPERS Traditional Pension Plan, Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2016, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F’s total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability or asset 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:

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

| | OPERS - Traditional | OPERS - Combined | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|---|
| Proportion of the net pension liability/asset prior measurement date | 0.02160600% | 0.01313000% | 0.00887600% | 0.15448900% | |
| Proportion of the net pension liability/asset current measurement date | 0.02100000% | 0.01180900% | 0.00849400% | 0.12891600% | |
| Change in proportionate share | -0.00060600% | -0.00132100% | -0.00038200% | -0.02557300% | |
| Proportionate share of the net pension liability | $ 4,768,743 | $ - | $ - | $ 8,165,436 | $ 12,934,179 |
| Proportionate share of the net pension asset | - | 6,573 | 35 | - | 6,608 |
| Pension expense | 976,530 | 4,748 | 44 | 994,497 | 1,975,819 |

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**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

| | OPERS - Traditional | OPERS - Combined | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|---|
| **Deferred outflows of resources** | | | | | |
| Differences between expected and actual experience | $ 6,464 | $ - | $ 362 | $ 2,310 | $ 9,136 |
| Net difference between projected and actual earnings on pension plan investments | 710,177 | 1,605 | 31 | 794,049 | 1,505,862 |
| Changes of assumptions | 756,380 | 1,602 | 39 | - | 758,021 |
| Changes in employer's proportionate percentage/ difference between employer contributions | 59,188 | - | - | 900,795 | 959,983 |
| City contributions subsequent to the measurement date | 323,101 | 5,406 | 4,319 | 535,428 | 868,254 |
| Total deferred outflows of resources | $ 1,855,310 | $ 8,613 | $ 4,751 | $ 2,232,582 | $ 4,101,256 |
| **Deferred inflows of resources** | | | | | |
| Differences between expected and actual experience | $ 28,381 | $ 3,361 | $ - | $ 18,800 | $ 50,542 |
| Changes in employer's proportionate percentage/ difference between employer contributions | 129,123 | - | - | 1,153,281 | 1,282,404 |
| Total deferred inflows of resources | $ 157,504 | $ 3,361 | $ - | $ 1,172,081 | $ 1,332,946 |

$868,254 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/asset in the year ending December 31, 2018.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS - Traditional | OPERS - Combined | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|---|
| Year Ending December 31: | | | | | |
| 2018 | $ 555,481 | $ 311 | $ 62 | $ 292,004 | $ 847,858 |
| 2019 | 589,715 | 311 | 62 | 292,004 | 882,092 |
| 2020 | 250,324 | 244 | 60 | 220,044 | 470,672 |
| 2021 | (20,815) | (325) | 51 | (69,530) | (90,619) |
| 2022 | - | (266) | 51 | (186,883) | (187,098) |
| Thereafter | - | (429) | 146 | (22,566) | (22,849) |
| Total | $ 1,374,705 | $ (154) | $ 432 | $ 525,073 | $ 1,900,056 |

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, for the defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

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

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

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

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Discount Rate*** - The discount rate used to measure the total pension liability/asset was 7.50%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. A discount rate of 8.00% was used in the previous measurement period. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the City'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/asset calculated using the current period discount rate assumption of 7.50%, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| City's proportionate share of the net pension liability (asset): | | | |
| Traditional Pension Plan | $ 7,285,320 | $ 4,768,743 | $ 2,671,620 |
| Combined Plan | 472 | (6,573) | (12,045) |
| Member-Directed Plan | 85 | (35) | (85) |

***Actuarial Assumptions – OP&F***

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

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

| | |
|---|---|
| Valuation date | January 1, 2016 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8.25% |
| Projected salary increases | 4.25% - 11.00% |
| Payroll increases | 3.75% |
| Inflation assumptions | 3.25% |
| Cost of living adjustments | 2.60% and 3.00% simple |

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 for the five-year period ended December 31, 2016. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2017 actuarial valuation.

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

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

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

Note: assumptions are geometric.
* levered 2x
** numbers include inflation

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

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Discount Rate*** - The total pension liability was calculated using the discount rate of 8.25%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25%. 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%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25%), or one percentage point higher (9.25%) than the current rate.

| | 1% Decrease (7.25%) | Current Discount Rate (8.25%) | 1% Increase (9.25%) |
|---|---|---|---|
| City's proportionate share of the net pension liability | $ 10,875,359 | $ 8,165,436 | $ 5,868,692 |

***Changes Between Measurement Date and Report Date*** - In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25% to 8.00%. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

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

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

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting https://www.opers.org/financial/reports.shtml, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2017, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2017 was 1.00%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2017, 2016, and 2015 were $26,998, $56,184, and $53,153, respectively; 83.82% has been contributed for 2017 and 100% has been contributed for 2016 and 2017. The remaining 2017 post-employment health care benefits liability has been reported as pension and postemployment benefits payable on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

**B. Ohio Police and Fire Pension Fund**

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

OP&F provides access to post-employment health care coverage to 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 meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

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

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts, one account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 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 into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2017 thru December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the 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 to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were $7,526 and $5,308 for the year ended December 31, 2017, $8,286 and $5,840 for the year ended December 31, 2016, and $8,031 and $6,840, for the year ended December 31, 2015. 100% has been contributed for 2016 and 2015. 80.97% has been contributed for police and 83.12% has been contributed for firefighters for 2017. The remaining 2017 post-employment health care benefits liability has been reported as pension and postemployment benefits payable on the basic financial statements.

## NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

(a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to restricted, assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

(d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

**Net Change in Fund Balance**

| | General Fund | Fostoria Revolving Loan Fund | WSOS Housing Rehabilitation Fund |
|---|---|---|---|
| Budget basis | $ (369,313) | $ 946,068 | $ (5,731) |
| Net adjustment for revenue accruals | 11,931 | (1,265,017) | - |
| Net adjustment for expenditure accruals | 109,183 | 331,290 | - |
| Net adjustment for other sources/uses | 1,176 | - | - |
| Funds budgeted elsewhere | (15,845) | - | - |
| Adjustment for encumbrances | 69,342 | - | - |
| GAAP basis | $ (193,526) | $ 12,341 | $ (5,731) |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the health insurance fund, the loop road project fund, the community development fund, the charter government fund and the job creation grant program fund.

## NOTE 18 - FUND BALANCE

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

| Fund balance | General | Fostoria Revolving Loan | WSOS Housing Rehabiliation | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Nonspendable: | | | | | |
| Prepayments | $ 164,092 | $ - | $ - | $ 14,703 | $ 178,795 |
| Long-term loans | 17,450 | - | - | - | 17,450 |
| Permanent fund | - | - | - | 119,599 | 119,599 |
| Materials and supplies inventory | - | - | - | 154,883 | 154,883 |
| Total nonspendable | 181,542 | - | - | 289,185 | 470,727 |
| Restricted: | | | | | |
| Capital projects | - | - | - | 50 | 50 |
| Security of persons and property | - | - | - | 144,746 | 144,746 |
| Transportation projects | - | - | - | 461,773 | 461,773 |
| Revolving loans | - | 2,020,802 | - | 772,540 | 2,793,342 |
| Public health and welfare | - | - | - | 161,026 | 161,026 |
| Community environment | - | - | 26,915 | 99,582 | 126,497 |
| Other purposes | - | - | - | 106,128 | 106,128 |
| Total restricted | - | 2,020,802 | 26,915 | 1,745,845 | 3,793,562 |
| Committed: | | | | | |
| General government | - | - | - | 48,389 | 48,389 |
| Fostoria community trust | - | - | - | 2,692 | 2,692 |
| Capital projects | - | - | - | 247,367 | 247,367 |
| Total committed | - | - | - | 298,448 | 298,448 |
| Assigned: | | | | | |
| General government | 45,171 | - | - | - | 45,171 |
| Community and environment | 106,093 | - | - | - | 106,093 |
| Total assigned | 151,264 | - | - | - | 151,264 |
| Unassigned (deficit) | (691,152) | - | - | (182,150) | (873,302) |
| Total fund balances (deficit) | $ (358,346) | $ 2,020,802 | $ 26,915 | $ 2,151,328 | $ 3,840,699 |

## NOTE 19 - OTHER COMMITMENTS

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

| Fund | Year-End Encumbrances |
|---|---|
| General fund | $ 60,221 |
| Other governmental funds | 273,602 |
| Total | $ 333,823 |

## NOTE 20 - CONTINGENCIES

**Litigation**

The City is currently involved in litigation that's outcome is indeterminable.

## NOTE 21 - CONDUIT DEBT

The City has issued conduit debt on behalf of the Fostoria Community Hospital for the purpose of acquiring property and equipment and for capital improvements. Fostoria Community Hospital will repay the debt through lease payments of the property financed. Upon repayment of the debt, the ownership of the acquired property transfers to the Fostoria Community Hospital. The aggregate amount on the debt outstanding as of December 31, 2017, is $1,002,595. The City is not obligated in any manner for repayment of the debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

## NOTE 22 - FISCAL EMERGENCY

On May 26, 2016, the Auditor of State declared the City in fiscal emergency as of December 31, 2015 and February 29, 2016, due to the existence of numerous negative fund balances. The declaration resulted in financial planning and supervision commission assuming certain management responsibilities for the duration of this emergency. This contributed to the City's financial condition including reductions in State revenues, phase-out of the tangible personal property tax, increasing health care costs and building maintenance costs and a significant decline in growth on the local level. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## NOTE 23 - TAX ABATEMENTS

As of December 31, 2017, the City provides tax abatements through an Enterprise Zone (Ezone). This program relates to the abatement of property taxes.

Ezone - Under the authority of ORC Sections 5709.62 and 5709.63, the Ezone program is an economic development tool administered by municipal and county governments that provides real and personal property tax exemptions to businesses making investments in Ohio. An Ezone is a designated area of land in which businesses can receive tax incentives in the form of tax exemptions on qualifying new investment. An Ezone's geographic area is identified by the local government involved in the creation of the zone. Once the zone is defined, the local legislative authority participating in the creation must petition the OSDA. The OSDA must then certify the area for it to become an active Enterprise Zone. The local legislative authority negotiates the terms of the Enterprise Zone Agreement (the "Agreement") with the business, which may include tax sharing with the Board of Education. Legislation must then be passed to approve the Agreement. All Agreements must be finalized before the project begins and may contain provisions for the recoupment of taxes should the individual or entity fail to perform. The amount of the abatement is deducted from the business's property tax bill.

| Tax Abatement Program | City Taxes Abated |
|---|---|
| Enterprise Zone | $ 7,648 |

# REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FOSTORIA, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| *Traditional Plan:* | | | | |
| City's proportion of the net pension liability | 0.021000% | 0.021606% | 0.021993% | 0.021993% |
| City's proportionate share of the net pension liability | $ 4,768,743 | $ 3,742,432 | $ 2,652,603 | $ 2,592,688 |
| City's covered payroll | $ 2,719,167 | $ 2,709,875 | $ 2,662,292 | $ 2,713,392 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 175.38% | 138.10% | 99.64% | 95.55% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.25% | 81.08% | 86.45% | 86.36% |
| *Combined Plan:* | | | | |
| City's proportion of the net pension asset | 0.011809% | 0.013130% | 0.013073% | 0.013073% |
| City's proportionate share of the net pension asset | $ 6,573 | $ 6,389 | $ 5,033 | $ 1,372 |
| City's covered payroll | $ 45,967 | $ 47,792 | $ 47,783 | $ 45,031 |
| City's proportionate share of the net pension asset as a percentage of its covered payroll | 14.30% | 13.37% | 10.53% | 3.05% |
| Plan fiduciary net position as a percentage of the total pension asset | 116.55% | 116.90% | 114.83% | 104.56% |
| *Member Directed Plan:* | | | | |
| City's proportion of the net pension asset | 0.008494% | 0.008876% | n/a | n/a |
| City's proportionate share of the net pension asset | $ 35 | $ 34 | n/a | n/a |
| City's covered payroll | $ 44,092 | $ 49,433 | n/a | n/a |
| City's proportionate share of the net pension asset as a percentage of its covered payroll | 0.08% | 0.07% | n/a | n/a |
| Plan fiduciary net position as a percentage of the total pension asset | 103.40% | 103.91% | n/a | n/a |

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FOSTORIA, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR YEARS

| | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|
| City's proportion of the net pension liability | 0.12891600% | 0.15448900% | 0.12821760% | 0.12821760% |
| City's proportionate share of the net pension liability | $ 8,165,436 | $ 9,938,416 | $ 6,642,206 | $ 6,244,599 |
| City's covered payroll | $ 2,825,082 | $ 2,932,069 | $ 2,800,490 | $ 3,286,344 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 289.03% | 338.96% | 237.18% | 190.02% |
| Plan fiduciary net position as a percentage of the total pension liability | 68.36% | 66.77% | 72.20% | 73.00% |

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FOSTORIA, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

| | **2107** | **2016** | **2015** | **2014** |
|---|---|---|---|---|
| *Traditional Plan:* | | | | |
| Contractually required contribution | $ 323,101 | $ 326,300 | $ 325,185 | $ 319,475 |
| Contributions in relation to the contractually required contribution | (323,101) | (326,300) | (325,185) | (319,475) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 2,485,392 | $ 2,719,167 | $ 2,709,875 | $ 2,662,292 |
| Contributions as a percentage of covered payroll | 13.00% | 12.00% | 12.00% | 12.00% |
| *Combined Plan:* | | | | |
| Contractually required contribution | $ 5,406 | $ 5,516 | $ 5,735 | $ 5,734 |
| Contributions in relation to the contractually required contribution | (5,406) | (5,516) | (5,735) | (5,734) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 41,585 | $ 45,967 | $ 47,792 | $ 47,783 |
| Contributions as a percentage of covered payroll | 13.00% | 12.00% | 12.00% | 12.00% |
| *Member Directed Plan:* | | | | |
| Contractually required contribution | $ 4,319 | $ 5,291 | $ 5,932 | |
| Contributions in relation to the contractually required contribution | (4,319) | (5,291) | (5,932) | |
| Contribution deficiency (excess) | $ - | $ - | $ - | |
| City's covered payroll | $ 43,190 | $ 44,092 | $ 49,433 | |
| Contributions as a percentage of covered payroll | 10.00% | 12.00% | 12.00% | |

Note: Information prior to 2010 for the City's combined plan and prior to 2015 for the City's member directed plan was unavailable.
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 352,741 | $ 282,596 | $ 296,408 | $ 276,684 | $ 226,533 | $ 225,322 |
| (352,741) | (282,596) | (296,408) | (276,684) | (226,533) | (225,322) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 2,713,392 | $ 2,825,960 | $ 2,964,080 | $ 3,102,998 | $ 2,788,098 | $ 3,218,886 |
| 13.00% | 10.00% | 10.00% | 8.92% | 8.13% | 7.00% |
| | | | | | |
| $ 5,854 | $ 3,170 | $ 3,221 | $ 3,837 | | |
| (5,854) | (3,170) | (3,221) | (3,837) | | |
| $ - | $ - | $ - | $ - | | |
| $ 45,031 | $ 39,874 | $ 40,516 | $ 39,611 | | |
| 13.00% | 7.95% | 7.95% | 9.69% | | |

**CITY OF FOSTORIA, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| *Police:* | | | | |
| Contractually required contribution | $ 285,971 | $ 314,857 | $ 297,165 | $ 298,938 |
| Contributions in relation to the contractually required contribution | (285,971) | (314,857) | (297,165) | (298,938) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 1,505,111 | $ 1,657,142 | $ 1,564,026 | $ 1,573,358 |
| Contributions as a percentage of covered payroll | 19.00% | 19.00% | 19.00% | 19.00% |
| *Fire:* | | | | |
| Contractually required contribution | $ 249,457 | $ 274,466 | $ 321,490 | $ 288,376 |
| Contributions in relation to the contractually required contribution | (249,457) | (274,466) | (321,490) | (288,376) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 1,061,519 | $ 1,167,940 | $ 1,368,043 | $ 1,227,132 |
| Contributions as a percentage of covered payroll | 23.50% | 23.50% | 23.50% | 23.50% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 286,168 | $ 187,720 | $ 173,358 | $ 171,859 | $ 193,333 | $ 193,708 |
| (286,168) | (187,720) | (173,358) | (171,859) | (193,333) | (193,708) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 1,801,687 | $ 1,472,314 | $ 1,359,671 | $ 1,347,914 | $ 1,516,337 | $ 1,519,278 |
| 15.88% | 12.75% | 12.75% | 12.75% | 12.75% | 12.75% |
| $ 302,496 | $ 193,351 | $ 190,923 | $ 201,834 | $ 185,648 | $ 199,829 |
| (302,496) | (193,351) | (190,923) | (201,834) | (185,648) | (199,829) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 1,484,036 | $ 1,120,875 | $ 1,106,800 | $ 1,170,052 | $ 1,076,220 | $ 1,158,429 |
| 20.38% | 17.25% | 17.25% | 17.25% | 17.25% | 17.25% |

*OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2017.

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2017.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

City of Fostoria
Seneca County
213 South Main Street
Fostoria, Ohio 44830

To the Members of City 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 Fostoria, Seneca County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 28, 2018.

***Internal Control over Financial Reporting***

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

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts.



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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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-001 through 2017-004.

***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.

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
August 28, 2018

**Schedule of Findings**
**December 31, 2017**

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

**FINDING NUMBER 2017-001 Noncompliance Citation**

Ohio Admin. Code §117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Although the City's accounting system is capable of recording estimated receipts and comparing them to appropriations and actual receipts, the City did not enter any estimated receipts into the accounting system.

Because the estimated receipt information was not entered into the accounting system, City officials were unable to effectively monitor budgetary activity throughout the year.

Management's Response:
Management did not respond to the finding.

**FINDING NUMBER 2017-002 Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto.

For several non-payroll disbursements tested, the City did not certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The City did not certify the availability of funds prior to making commitments for several of the disbursements tested in 2017. Not certifying amounts available for expenditures could lead to fund deficits.

The City officials and employees must obtain the certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certificate language of Ohio Revised Code Section 5705.41(D) requires to authorize disbursements. The Then and Now Certificates must include language that states that the City did certify the availability of funds before the time of purchase.

Management's Response:
Management did not respond to the finding.

## FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

**FINDING NUMBER 2017-003 Noncompliance Citation**

Ohio Revised Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources.

Appropriations exceeded estimated resources at December 31, 2017 as follows:

| Fund | Current Year Appropriations | Total Estimated Resources | Variance |
|---|---|---|---|
| General Fund | 7,214,178 | 6,204,752 | (1,009,426) |

The City should implement monitoring procedures to ensure compliance with ORC Section 5705.39. Establishment of procedures to monitor the compliance with this requirement helps to ensure that monies are not spent in excess of available revenues.

Management's Response:
Management did not respond to the finding.

**FINDING NUMBER 2017-004 Noncompliance Citation**

Ohio Rev. Code Section 5705.10 states in part that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made. Negative fund balances indicate that money from one fund was used to cover the expenses of another fund.

The City had negative fund balances in the General, Airport Grant, Brownfield Grant, Park and Recreation, and General Capital funds.

We recommend the City only use funding for the purpose specified by the revenue source.

Management's Response:
Management did not respond to the finding.

**CITY OF FOSTORIA, OHIO**
**SENECA COUNTY**

Schedule of Prior Audit Findings
December 31, 2017

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|---|---|---|---|
| 2016-001 | Noncompliance – Ohio Admin. Code 117-2-02– Integrate budgetary accounts at the legal level of control. | No | Reissued as 2017-001 |
| 2016-002 | Noncompliance – Ohio Rev. Code Section 5705.41(D)(1)– Expending money before certificate signed by fiscal officer. | No | Reissued as 2017-002 |
| 2016-003 | Noncompliance – Ohio Rev. Code Section 5705.39 - Appropriations Exceeding Estimated Resources | No | Reissued as 2017-003 |
| 2016-004 | Noncompliance – Ohio Rev. Code Section 5705.10 Negative Fund Balances | No | Reissued as 2017-004 |
| 2006-005 | Noncompliance – Ohio Rev. Code Section 5705.35 | Yes | |

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# Dave Yost · Auditor of State

**CITY OF FOSTORIA**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**OCTOBER 2, 2018**

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