



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF VAN WERT
VAN WERT COUNTY
DECEMBER 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

City of Van Wert
Van Wert County
515 East Main Street
Van Wert, Ohio 45891

To the City Council:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Van Wert, Van Wert County, Ohio (the City), as of and for the year ended December 31, 2019, 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Van Wert, Van Wert County, Ohio, as of December 31, 2019, and the respective changes in cash financial position and budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2019, the City adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

Also, discussed in Note 21 to the financial statements, during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

August 12, 2020

City of Van Wert
Van Wert County, Ohio
Statement of Net Position-Cash Basis
December 31, 2019

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 7,301,457	\$ 5,325,653	\$ 12,627,110
Cash with Fiscal Agents	51,074	0	51,074
<i>Total Assets</i>	<u>7,352,531</u>	<u>5,325,653</u>	<u>12,678,184</u>
Net Position			
Restricted for:			
Capital Projects	3,737,816	0	3,737,816
Other Purposes	1,007,864	0	1,007,864
Unrestricted	2,606,851	5,325,653	7,932,504
<i>Total Net Position</i>	<u>\$ 7,352,531</u>	<u>\$ 5,325,653</u>	<u>\$ 12,678,184</u>

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Activities-Cash Basis
For the Year Ended December 31, 2019

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services and Sales	Operating Grants, Contributions	Capital Grants, Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 1,775,896	\$ 806,768	\$ 1,374	\$ 0	\$ (967,754)	\$ 0	\$ (967,754)
Security of Persons and Property							
Police	1,809,667	12,031	14,415	0	(1,783,221)	0	(1,783,221)
Fire	1,946,140	383,740	8,110	0	(1,554,290)	0	(1,554,290)
Other	702,497	3,558	2,765	0	(696,174)	0	(696,174)
Public Services	124,655	0	0	0	(124,655)	0	(124,655)
Public Health	157,500	0	0	0	(157,500)	0	(157,500)
Leisure Time Activities	350,485	37,284	0	170,828	(142,373)	0	(142,373)
Community and Economic Development	135,367	0	37,902	0	(97,465)	0	(97,465)
Transportation	3,167,621	930	77,586	591,762	(2,497,343)	0	(2,497,343)
Capital Outlay	670,441	0	0	0	(670,441)	0	(670,441)
Intergovernmental	282,472	0	0	0	(282,472)	0	(282,472)
Debt Service:							
Principal Retirement	60,000	0	0	0	(60,000)	0	(60,000)
Interest and Fiscal Charges	56,025	0	0	0	(56,025)	0	(56,025)
<i>Total Governmental Activities</i>	<u>11,238,766</u>	<u>1,244,311</u>	<u>142,152</u>	<u>762,590</u>	<u>(9,089,713)</u>	<u>0</u>	<u>(9,089,713)</u>
Business-Type Activities							
Water	1,660,708	1,828,343	378	0	0	168,013	168,013
Sewer	5,765,292	2,757,066	25,546	0	0	(2,982,680)	(2,982,680)
<i>Total Business-Type Activities</i>	<u>7,426,000</u>	<u>4,585,409</u>	<u>25,924</u>	<u>0</u>	<u>0</u>	<u>(2,814,667)</u>	<u>(2,814,667)</u>
<i>Total Primary Government</i>	<u>\$ 18,664,766</u>	<u>\$ 5,829,720</u>	<u>\$ 168,076</u>	<u>\$ 762,590</u>	<u>(9,089,713)</u>	<u>(2,814,667)</u>	<u>(11,904,380)</u>
General Receipts:							
Property Taxes Levied for:							
General Purposes				350,710	0	350,710	
Police Pension				45,393	0	45,393	
Fire Pension				45,393	0	45,393	
Income Taxes Levied for:							
General Purposes				4,571,117	0	4,571,117	
Police and Fire				974,103	0	974,103	
Transportation				2,214,091	0	2,214,091	
Other Local Taxes -Hotel/Motel				204,366	0	204,366	
Grants and Entitlements not Restricted to Specific Programs				303,190	0	303,190	
Sale of Assets				4,672	20,725	25,397	
Payment in Lieu of Taxes				282,472	0	282,472	
Proceeds from Loans				0	3,221,220	3,221,220	
Investment Earnings				293,888	0	293,888	
Miscellaneous				118,302	67,819	186,121	
<i>Total General Receipts</i>				<u>9,407,697</u>	<u>3,309,764</u>	<u>12,717,461</u>	
Transfers				18,893	(18,893)	0	
<i>Change in Net Position</i>				336,877	476,204	813,081	
<i>Net Position Beginning of Year (Restated - see note 3)</i>				<u>7,015,654</u>	<u>4,849,449</u>	<u>11,865,103</u>	
<i>Net Position End of Year</i>				<u>\$ 7,352,531</u>	<u>\$ 5,325,653</u>	<u>\$ 12,678,184</u>	

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
December 31, 2019

	<u>General</u>	<u>Street Construction</u>	<u>Police & Fire</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,424,678	\$ 2,792,353	\$ 817,724	\$ 1,266,702	\$ 7,301,457
Cash with Fiscal Agents	0	51,074	0	0	51,074
<i>Total Assets</i>	<u>\$ 2,424,678</u>	<u>\$ 2,843,427</u>	<u>\$ 817,724</u>	<u>\$ 1,266,702</u>	<u>\$ 7,352,531</u>
 Fund Balances					
Nonspendable	\$ 8,930	\$ 0	\$ 0	\$ 0	\$ 8,930
Restricted	0	2,843,427	817,724	1,084,529	4,745,680
Committed	260,248	0	0	182,173	442,421
Assigned	815,627	0	0	0	815,627
Unassigned	1,339,873	0	0	0	1,339,873
<i>Total Fund Balances</i>	<u>\$ 2,424,678</u>	<u>\$ 2,843,427</u>	<u>\$ 817,724</u>	<u>\$ 1,266,702</u>	<u>\$ 7,352,531</u>

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Year Ended December 31, 2019

	General	Street Construction	Police & Fire	Nonmajor Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$ 350,710	\$ 0	\$ 0	\$ 90,786	\$ 441,496
Municipal Income Taxes	4,571,117	2,214,091	651,569	322,534	7,759,311
Other Local Taxes	54,923	0	0	149,443	204,366
Payment in Lieu of Taxes	0	0	0	282,472	282,472
Charges for Services	486,827	0	0	1,780	488,607
Fees, Licenses and Permits	433,691	0	0	0	433,691
Fines and Forfeitures	0	0	0	272,364	272,364
Intergovernmental	303,190	41,170	0	815,413	1,159,773
Interest	293,888	0	0	10,443	304,331
Rent	49,649	0	0	0	49,649
Gifts and Donations	272	0	0	9,505	9,777
Permissive Motor Vehicle License Tax	0	0	0	27,939	27,939
Other	97,056	9,525	0	11,721	118,302
<i>Total Receipts</i>	<u>6,641,323</u>	<u>2,264,786</u>	<u>651,569</u>	<u>1,994,400</u>	<u>11,552,078</u>
Disbursements					
Current:					
General Government	1,447,009	0	0	330,138	1,777,147
Security of Persons and Property					
Police	1,589,599	0	0	220,068	1,809,667
Fire	1,721,334	0	0	224,806	1,946,140
Other	700,005	0	0	2,492	702,497
Public Service	124,655	0	0	0	124,655
Public Health	157,500	0	0	0	157,500
Leisure Time Activities	350,485	0	0	0	350,485
Community and Economic Development	0	0	0	135,367	135,367
Transportation	0	2,616,514	0	551,107	3,167,621
Intergovernmental	0	0	0	282,472	282,472
Capital Outlay	0	0	434,966	235,475	670,441
Debt Service:					
Principal Retirement	0	0	0	60,000	60,000
Interest and Fiscal Charges	0	0	0	56,025	56,025
<i>Total Disbursements</i>	<u>6,090,587</u>	<u>2,616,514</u>	<u>434,966</u>	<u>2,097,950</u>	<u>11,240,017</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>550,736</u>	<u>(351,728)</u>	<u>216,603</u>	<u>(103,550)</u>	<u>312,061</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Assets	4,672	0	0	0	4,672
Transfers In	25,915	0	0	86,143	112,058
Transfers Out	(86,143)	(3,580)	0	(2,191)	(91,914)
<i>Total Other Financing Sources (Uses)</i>	<u>(55,556)</u>	<u>(3,580)</u>	<u>0</u>	<u>83,952</u>	<u>24,816</u>
<i>Net Change in Fund Balance</i>	495,180	(355,308)	216,603	(19,598)	336,877
<i>Fund Balance Beginning of Year (Restated - see Note 3)</i>	<u>1,929,498</u>	<u>3,198,735</u>	<u>601,121</u>	<u>1,286,300</u>	<u>7,015,654</u>
<i>Fund Balance End of Year</i>	<u>\$ 2,424,678</u>	<u>\$ 2,843,427</u>	<u>\$ 817,724</u>	<u>\$ 1,266,702</u>	<u>\$ 7,352,531</u>

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final Budget Over (Under)
Receipts				
Property Taxes	\$ 365,250	\$ 365,250	\$ 350,710	\$ (14,540)
Income Taxes	4,563,000	4,563,000	4,571,117	8,117
Other Local Taxes	0	48,000	54,923	6,923
Charges for Services	449,750	449,750	486,827	37,077
Licenses and Permits	478,000	478,000	433,691	(44,309)
Intergovernmental	332,635	284,635	303,190	18,555
Interest	210,000	210,000	293,255	83,255
Rent	42,000	42,000	49,649	7,649
Contributions and Donations	0	0	272	272
Other	25,150	25,350	97,056	71,706
<i>Total Receipts</i>	<u>6,465,785</u>	<u>6,465,985</u>	<u>6,640,690</u>	<u>174,705</u>
Disbursements				
Current:				
General Government	1,531,364	1,636,558	1,495,859	140,699
Security of Persons and Property				
Police	2,310,988	1,718,684	1,602,042	116,642
Fire	1,887,301	1,896,335	1,747,767	148,568
Other	461,835	763,807	716,080	47,727
Public Services	141,295	138,543	125,256	13,287
Public Health	157,500	157,500	157,500	0
Leisure Time Activities	447,010	446,889	386,821	60,068
Public Works	0	0	1,506	(1,506)
<i>Total Disbursements</i>	<u>6,937,293</u>	<u>6,758,316</u>	<u>6,232,831</u>	<u>525,485</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(471,508)</u>	<u>(292,331)</u>	<u>407,859</u>	<u>700,190</u>
Other Financing Sources (Uses)				
Sale of Assets	3,500	3,500	4,672	1,172
Transfers In	76,000	76,000	62,499	(13,501)
Transfers Out	(123,745)	(223,745)	(138,840)	84,905
<i>Total Other Financing Sources (Uses)</i>	<u>(44,245)</u>	<u>(144,245)</u>	<u>(71,669)</u>	<u>72,576</u>
<i>Net Change in Fund Balance</i>	(515,753)	(436,576)	336,190	772,766
<i>Fund Balance Beginning of Year</i>	1,706,416	1,706,416	1,706,416	0
Prior Year Encumbrances Appropriated	31,949	31,949	31,949	0
<i>Fund Balance End of Year</i>	<u>\$ 1,222,612</u>	<u>\$ 1,301,789</u>	<u>\$ 2,074,555</u>	<u>\$ 772,766</u>

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Funds
December 31, 2019

	Business-Type Activities (Enterprise)		
	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,602,323	\$ 3,723,330	\$ 5,325,653
 Net Position			
Unrestricted	\$ 1,602,323	\$ 3,723,330	\$ 5,325,653

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2019

	Business-Type Activities (Enterprise)			Governmental Activities - Internal Service Fund
	Water	Sewer	Totals	
Operating Receipts				
Charges for Services	\$ 1,791,979	\$ 2,744,466	\$ 4,536,445	\$ 241,819
Tap In Fees	36,364	12,600	48,964	0
Other	7	0	7	0
<i>Total Operating Receipts</i>	1,828,350	2,757,066	4,585,416	241,819
Operating Disbursements				
Personal Services	940,564	855,665	1,796,229	111,938
Materials and Supplies	569,057	751,984	1,321,041	128,950
Utilities Deposits Refunded	19,918	19,919	39,837	0
Capital Outlay	131,169	3,402,141	3,533,310	0
Other	0	5,414	5,414	0
<i>Total Operating Disbursements</i>	1,660,708	5,035,123	6,695,831	240,888
<i>Operating Income (Loss)</i>	167,642	(2,278,057)	(2,110,415)	931
Non-Operating Receipts (Disbursements)				
Intergovernmental	378	25,546	25,924	320
Proceeds from Loans	0	3,221,220	3,221,220	0
Proceeds from Sale of Assets	19,650	1,075	20,725	0
Other Non-Operating Revenues	34,796	33,016	67,812	0
Principal Retirement	0	(695,488)	(695,488)	0
Interest and Fiscal Charges	0	(34,681)	(34,681)	0
<i>Total Non-Operating Receipts (Disbursements)</i>	54,824	2,550,688	2,605,512	320
<i>Income (Loss) Before Transfers</i>	222,466	272,631	495,097	1,251
Transfers Out	(9,539)	(9,354)	(18,893)	(1,251)
<i>Total Transfers</i>	(9,539)	(9,354)	(18,893)	(1,251)
<i>Change in Net Position</i>	212,927	263,277	476,204	0
<i>Net Position Beginning of Year (Restated - Note 3)</i>	1,389,396	3,460,053	4,849,449	0
<i>Net Position End of Year</i>	\$ 1,602,323	\$ 3,723,330	\$ 5,325,653	\$ 0

See accompanying note to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
December 31, 2019

	Private Purpose Trust Funds	Custodial Funds
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 0	\$ 14
Cash in Segregated Accounts	38,435	134,278
<i>Total Assets</i>	<u>38,435</u>	<u>134,292</u>
Net Position		
Restricted for Individuals, Organizations and Other Governments	0	134,292
Restricted for Other Fiduciary	38,435	0
<i>Total Net Position</i>	<u>\$ 38,435</u>	<u>\$ 134,292</u>

See accompanying notes to the basic financial statements.

City of Van Wert
Van Wert County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
December 31, 2019

	Private Purpose Trust Funds	Custodial Funds
Additions		
Fines and Forfeitures for Other Governments	\$ 0	\$ 912,816
Amounts Received as Fiscal Agent	0	65,589
Interest	956	0
<i>Total Additions</i>	<u>956</u>	<u>978,405</u>
Deductions		
Distributions as Fiscal Agent	0	65,575
Distributions of Fines and Forfeitures	0	893,047
<i>Total Deductions</i>	<u>0</u>	<u>958,622</u>
<i>Change in Net Position</i>	956	19,783
<i>Net Position Beginning of Year (Restated - see Note 3)</i>	<u>37,479</u>	<u>114,509</u>
<i>Net Position End of Year</i>	<u>\$ 38,435</u>	<u>\$ 134,292</u>

See accompanying notes to the basic financial statements.

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City of Van Wert
Van Wert County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 1 – Reporting Entity

The City of Van Wert is a home rule municipal corporation established under the laws of the State of Ohio. The City operates under the Mayor/Council form of government. Four council members are elected from wards for two year terms. The President of Council and three council members are elected by separate ballot from the municipality at large for two year terms. The Mayor is elected for a four year term. The Mayor may veto any legislation passed by Council. In addition to establishing City policies, Council is responsible for passing ordinances, adopting the budget, and appointing boards and commissions. The Mayor is responsible for carrying out the policies and ordinances of Council, for overseeing the day-to-day operations of the City and for appointing the heads of the various City departments.

The reporting entity is composed of the primary government, component unit, and other organizations that are included to ensure the financial statements of the City are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. The primary government of the City of Van Wert provides the following services to its citizens: police and fire protection, emergency medical transportation, parks and recreation, building inspection, street maintenance and repairs, water, sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. Council has direct responsibility for these services.

B. Component Units

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. The City is also financially accountable for any organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the City, are accessible to the City and are significant in amount to the City. There were no component units of the City of Van Wert in 2019.

C. Joint Ventures/Jointly Governed Organizations

A joint venture is a legal entity or other organization that results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the City does not report assets for equity interests in joint ventures. The City also participates in two jointly governed organizations, two public entity risk pools, and is associated with a related organization. These organizations are described in Notes 18, 19 and 20.

City of Van Wert
Van Wert County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

The City's management believes these financial statements present all activities for which the City is financially accountable.

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial 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.

1. 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 activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net position presents the cash balance of the governmental and business-type activities of the City at year end. The statement of activities compares disbursements and program receipts for each program or function of the City's governmental activities and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the City is responsible.

Program receipts 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 receipts of interest earned on grants that are required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the City, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program or business activity is self-financing on a cash basis or draws from the general receipts of the City.

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Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

2. 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. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. 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. The funds of the City are presented in three categories: governmental, proprietary, and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The following are the City's major governmental funds:

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

Street Construction Fund - The Street Construction Fund accounts for all financial resources resulting from .50 percent income tax. The Street Construction Fund is for the following purpose: to design, build, maintain and inspect City streets for any related equipment, labor, materials and supplies.

Police and Fire Fund - The Police and Fire Fund accounts for all financial resources resulting from the .22 percent income tax. The Police and Fire Fund is for the capital purchases for the City safety departments (police and fire departments). The purpose of this fund was amended in 2009 by ballot. Starting in 2010 based on the prior year tax budget, up to 2/3 of the current year tax revenues can be used for personal and fringe benefit expense for police and fire personnel.

The other governmental funds of the City account for and report grants and other resources, whose use is restricted, committed or assigned to a particular purpose.

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Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

2. Proprietary Funds

The City classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds.

Enterprise Funds - 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 - The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the City.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the City.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's internal service fund accounts for monies received for the activities of the garage fund.

3. 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 custodial 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 not available to support the City's own programs. The City's trust fund accounts for an endowment in which only the income is to be used to remove dead or dangerous trees from the City property between the sidewalk and the streets. Custodial funds are purely custodial in nature and are used to account for assets held by the City for individuals, other governments, or other organizations. The City's custodial funds account for the activity of the municipal court, State Patrol Rotary, and the Woodland Cemetery.

C. Basis of Accounting

The City's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

D. Budgetary Process

All funds, except custodial funds, are legally required to be budgeted and appropriated. 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 tax budget demonstrates a need for existing or increased tax rates.

The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on disbursements plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the City Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by City Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

E. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately within the Municipal Court of the City (Custodial Fund) and for the Walter Emans Memorial (Private Purpose Trust) are recorded as "Cash in Segregated Accounts".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

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(Continued)

During the year 2019, 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 also implemented GASB Statement No. 79 for 2016. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the year 2019, 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 \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

The City has segregated bank accounts for monies held separately from the City's central bank account. These depository accounts are presented on the financial statements as "cash in segregated accounts".

The City also reports "cash with fiscal agents" for monies held for retainage.

Interest earnings are allocated to City funds according to State statutes, the Charter and Codified Ordinances of the City, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2019 was \$293,888 which includes \$254,104 assigned from other City funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as nonspendable.

G. Inventory and Prepaid Items

The City reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

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Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes primarily include resources restricted for street repair, and maintenance of State highways and local streets, recreation, loans to local businesses, and other revenues restricted for use by the municipal court and police department. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

M. Fund Balance

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes

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Notes to the Financial Statements
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(Continued)

stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. 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 or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

N. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

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(Continued)

O. Pensions

For purposes of measuring the net pension liability, 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.

Note 3 – Early Implementation of New Accounting Principles and Restatement of Net Position/Fund Balances

For the year ended December 31, 2019, the City has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* and GASB Statement No. 90, *Majority Equity Interests and amendment of GASB Statements No. 14 and No. 61*.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the City.

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds. The City reviewed its funds for proper classification, and any fund reclassifications resulted in the restatement of the City's financial statements (see below).

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. The implementation of GASB Statement No. 89 did not have an effect on the financial statements of the City.

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the City.

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Restatement of Net Position/Fund Balances

A review of the purpose/use of one of the City's funds resulted in a fund being reported differently than it was reported in prior years. There was an adjustment made for cash balances in two funds for the utility deposit amounts reported in the Water and Sewer enterprise funds as they benefit both funds. The restatement had the following effect on fund balance/net position of the major proprietary funds of the City as they were previously reported.

	<u>Water</u>	<u>Sewer</u>
Beginning balance	\$1,317,658	\$3,531,791
Fund Classification Correction	71,738	(71,738)
Adjusted balance	<u>\$1,389,396</u>	<u>\$3,460,053</u>

The implementation of GASB 84 had the following effect on governmental fund balance as reported December 31, 2018:

	<u>Governmental Activities</u>	<u>General</u>	<u>Street Construction</u>	<u>Police & Fire</u>	<u>Other Governmental</u>	<u>Total</u>
Beginning balance	\$7,007,895	\$1,929,498	\$3,198,735	\$601,121	\$1,278,541	\$7,007,895
GASB 84	7,759				7,759	7,759
Adjusted balance	<u>\$7,015,654</u>	<u>\$1,929,498</u>	<u>\$3,198,735</u>	<u>\$601,121</u>	<u>\$1,286,300</u>	<u>\$7,015,654</u>

The implementation of GASB 84 had the following effect on fiduciary net position as reported December 31, 2018:

	<u>Private Purpose</u>			
	<u>Trust</u>	<u>Agency</u>	<u>Custodial</u>	<u>Total</u>
Beginning balance	\$ 37,479	\$ 7,759	\$ 0	\$ 45,238
Liabilities reported in PY	0	0	114,509	114,509
Net position Restatement	0	(7,759)	0	(7,759)
Adjusted balance	<u>\$ 37,479</u>	<u>\$ 0</u>	<u>\$ 114,509</u>	<u>\$ 151,988</u>

Note 4 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the City to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For 2019, the City prepared its financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement, No. 34, report on a basis of cash receipts and cash disbursements rather than GAAP. The accompanying financial statements and notes omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the City may be fined, and subject to various other administrative remedies for its failure to file the required financial report.

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For the Year Ended December 31, 2019
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Note 5 – Deposits and Investments

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

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active 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 either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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, or by the financial institutions 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.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments; and, with certain limitations including a maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;

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5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio and STAR Plus).
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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 treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

At year-end, \$658 of the City's bank balance of \$437,689 was exposed to custodial credit risk. Although the securities were held by the pledging financial institutions' trust department in the City's name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

At year-end, \$51,074 was held as escrow money for contract retainage and is fully insured by the FDIC.

At December 31, 2019, the City fund had a balance of (\$48,612) with the Jefferson Health Plan, a public entity, risk sharing, claims servicing and insurance purchasing pool (see Note 9). The money is held by the claims servicing pool in a pooled account, which is representative of numerous entities and therefore cannot be included in the risk disclosures reported by the City. The classification of cash and cash equivalents with fiscal agent for the Jefferson Health Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Jefferson Health Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

- Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

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- 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 required 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.

Investments

As of December 31, 2019, the City had the following investments:

Investment	Amount	Investment Maturities in Months			% Total
		0 - 12	13 - 36	Over 36	
NAV:					
STAR Ohio	\$ 147,091	\$ 147,091	\$ 0	\$ 0	1.2%
Cost Value:					
Repurchase Agreement	3,090,338	3,090,338	0	0	24.4%
VW Municipal Court Improvement Bonds	1,185,000	65,000	135,000	985,000	9.4%
Federal Home Loan Banks	2,000,001	500,001	0	1,500,000	15.8%
Federal Home Loan Mortgage Corporation	500,000	0	0	500,000	3.9%
Federal National Mortgage Association	999,500	0	999,500	0	7.9%
Federal Farm Credit Bank	2,001,132	1,001,132	0	1,000,000	15.8%
Money Market Accounts	639,166	639,166	0	0	5.0%
Commercial Paper	2,096,826	2,096,826	0	0	16.6%
	<u>\$ 12,659,054</u>	<u>\$ 7,539,554</u>	<u>\$ 1,134,500</u>	<u>\$ 3,985,000</u>	<u>100.0%</u>

Interest Rate Risk Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City’s investment policy addresses interest rate risk by requiring the City’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Credit Risk The security underlying the repurchase agreement, the federal national mortgage association notes, federal farm credit banks, federal home loan mortgage corporation and federal home loan bank carry a rating of Aaa by Moody’s and AA+ by Standard and Poors. STAR Ohio and the money market account carries a rating of AAAM by Standard and Poor’s. Commercial Paper was rated A-1/P-1. The City has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of December 31, 2019, is 56 days.

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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 repurchase agreement, federal national mortgage association notes and the federal home loan bank notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the City's name.

The City has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Concentration of Credit Risk The City places no limit on the amount it may invest in any one issuer.

Note 6 – Income Taxes

The City levies a 1.72 percent income tax on substantially all income earned in the City. In addition, City residents employed in municipalities having an income tax less than 1.72 percent must pay the difference to the City. Additional increases in the income tax rate require voter approval. Employers within the City withhold income tax on employee compensation and remit at least quarterly and file an annual declaration.

The City's income tax ordinance requires that .72 percent of the income tax levied is to be used to finance capital improvements. As a result, .50 percent of receipts are allocated to the street construction fund and .22 percent of receipts are allocated to the police and fire safety fund each year. Starting in 2010, based on the prior year tax budget, up to 2/3 of the .22 percent of receipts allocated to the police and fire safety fund can be used for personal and fringe benefit expense for police and fire personnel. An amended police and fire fund was established for this activity.

The remaining income tax receipts are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. During 2019, the taxes were allocated to the general fund, street construction fund, police and fire safety fund, and amended police and fire safety fund.

Note 7 – Tax Abatements

As of December 31, 2019, the City provides tax abatements through three programs: The Community Reinvestment Area (CRA) Tax Abatements, Tax Increment Financing (TIF), and Tax Incentive Agreements.

COMMUNITY REINVESTMENT AREA (CRA)

The City has 3 Community Reinvestment Areas established under ORC 3735.66 allowing tax exemption of certain properties for real property tax. The amount of taxes abated for 2019 was \$166,361.

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TAX INCENTIVE AGREEMENT

The City has 2 Enterprise Zone Agreement established under ORC Chapter 5709. The amount of taxes abated for 2019 was \$13,287.

TAX INCREMENT FINANCING

The City has one Tax Increment Financing Agreement. The amount of taxes abated in 2019 was \$282,472.

Note 8 – Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2019 for real and public utility property taxes represents collections of the 2018 taxes.

2019 real property taxes were levied after October 1, 2018 on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value.

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 tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2019 public utility property taxes which became a lien December 31, 2018, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2019, was \$3.20 per \$1,000 of assessed valuation. The assessed values of real property and public utility tangible property upon which 2019 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$ 163,629,610
Public Utility Personal Property	<u>9,122,890</u>
Total Assessed Value	<u>\$ 172,752,500</u>

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected.

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Note 9 – Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2019, the City contracted through Purmort Brothers Insurance Agency with Central Mutual Insurance for buildings and contents coverage. The City also contracted through Merkle Insurance Agency with the Public Entities Pool of Ohio for the remaining coverage.

Blanket Property and Contents, Replacement	\$ 47,361,000	\$ 5,000
Blanket Contents	\$ 1,655,000	\$ 5,000
Inland Marine	1,187,765	2,500
General Liability	4,000,000	0
Automobile Liability	4,000,000	0
Public Officials Liability	4,000,000	5,000
Police Professional Liability	4,000,000	3,000
Employment Practice Liability	4,000,000	5,000
Computer - Hardware	270,761	500
Public Employee Dishonesty	100,000	500
Money and Securities	40,000	500

Settled claims have not exceeded this commercial coverage in any of the past three years and there was no significant reduction in coverage from the prior year.

The City is exposed to various risks of property and casualty losses, and injuries to employees.

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

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, 2019, PEP retained \$500,000 for casualty claims and \$250,000 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 auditors) conform with general accepted accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and net position at December 31, 2019 and 2018:

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	2019	2018
Assets	\$ 54,973,597	\$ 49,921,998
Liabilities	(16,440,940)	(14,676,199)
Net Position - Unrestricted	\$ 38,532,657	\$ 35,245,799

At December 31, 2019 the liabilities above include approximately \$14.6 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million (\$11.8 million for 2018) of unpaid claims to be billed. The Pool's membership increased to 553 members in 2019 (538 in 2018). These amounts will be included in future contributions from members when the related claims are due for payment.

The Pool uses reinsurance and excess risk sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool (APEEP), which, like PEP, is administered by York Risk Pooling Services, Inc. (York). APEEP provides the Pool with an excess risk sharing program. Under this arrangement, the Pool retains insured risks up to an amount specified in the contracts. (At December 31, 2019 the Pool retained \$500,000 for casualty claims and \$250,000 for property claims). The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

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 annual 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	
2019	\$ 124,784

After one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of 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 disbursements become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

Worker's Compensation

The City participates in the Ohio Association of Public Treasurers (GRP) for worker's compensation. The intent of the GRP is to achieve the benefit of reduced premiums for the participants, foster safer working conditions and foster cost-effective claims management skills by virtue of its grouping and

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representation with other participants in the GRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium is applied to all cities in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for all cities in the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangements insures that each participant shares equally in the overall performance of the GRP. CompManagement provides administrative, cost control and actuarial services to the GRP.

Employee Medical Benefits

The City is an allocated balance member of the Jefferson Health plan for the City's self-insured health insurance for medical and prescription drug coverage and with The Standard as the Provider for the City's term life insurance, and accidental death and dismemberment and Vision Service plan for insurance for vision. Fund Reserves or deficits are held by the plans fiscal agent. As of December 31, 2019 the City reserve balance was (\$48,612). In 2019, the City went to a single High Deductible Plan with a Health Savings Account and Health Reimbursement Account for health insurance. Premium for family, employee and spouse, employee and children, and single were \$1,917, \$1,218, \$1,104, and \$638, respectively.

Note 10 – Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability

Pensions and OPEB are components of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions and OPEB are provided to an employee - on a deferred-payment basis - as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability and the net OPEB liability represent 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/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The remainder of this note includes the pension disclosures. See Note 11 for the OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

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 combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

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

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 who retired prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index (CPI), capped at three percent.

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

	<u>State and Local</u>
2019 Statutory Maximum Contribution Rates	
Employer	14.00 %
Employee	10.00 %
2019 Actual Contribution Rates	
Employer:	
Pension	14.00 %
Post-Employment Health Care Benefits	0.00 %
Total Employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

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Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$378,209 for 2019.

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

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 OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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 July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan (DROP) provisions and reduced and unreduced benefits.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F 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, surviving beneficiaries and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

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	<u>Police</u>	<u>Firefighters</u>
2019 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2019 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-Employment Health Care Benefits	0.50 %	0.50 %
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
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 \$527,255 for 2019.

Pension Liability

The net pension liability for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share of the City's defined benefit pension plans:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Period	0.018467%	0.103214%	
Prior Measurement Period	0.019426%	0.105243%	
Change in Proportion	<u>-0.000959%</u>	<u>-0.002029%</u>	
Proportionate Share of the Net Pension Liability	\$ 5,057,737	\$ 8,424,990	\$ 13,482,727

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

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each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following key actuarial assumptions and methods applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2018 are presented below.

Valuation Date	December 31, 2018
Wage Inflation	3.25 percent
Projected Salary Increases, including wage inflation	3.25 percent to 10.75 percent (includes wage inflation at 3.25 percent)
Investment Rate of Return	7.20 percent
Actuarial Cost Method	Individual Entry Age
Cost-of-Living Adjustments	Pre-1/7/2013 Retirees: 3.00 percent Simple Post-1/7/2013 Retirees: 3.00 percent Simple through 2018, then 2.15 percent Simple

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

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

The long-term expected 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 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 2.94 percent for 2018.

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The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2018 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 %	2.79 %
Domestic Equities	19.00	6.21
Real Estate	10.00	4.90
Private Equity	10.00	10.81
International Equities	20.00	7.83
Other Investments	18.00	5.50
Total	100.00 %	5.95 %

Discount Rate The discount rate used to measure the total pension liability was 7.20 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the 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 benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.20 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.20 percent) or one-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
City's Proportionate Share of the Net Pension Liability	\$ 7,471,748	\$ 5,057,737	\$ 3,051,672

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2018 is based on the results of an actuarial valuation date of January 1, 2018, 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 retirement plan involve estimates of the value 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

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review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2018, are presented below:

Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.50 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.50 percent
Cost-of-Living Adjustments	3.00 percent simple; 2.20 percent simple for increases based on lesser of the increase in CPI and 3.00 percent

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

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

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

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

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

The long-term expected rate of return on 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 real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018, are summarized below:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return**</u>	<u>30 Year Expected Real Rate of Return**</u>
Cash and Cash Equivalents	0.00 %	1.00 %	0.80 %
Domestic Equity	16.00	5.30	5.50
Non-U.S. Equity	16.00	6.10	5.90
Private Markets	8.00	8.40	8.40
Core Fixed Income*	23.00	2.20	2.60
High Yield Fixed Income	7.00	4.20	4.80
Private Credit	5.00	8.30	7.50
U.S. Inflation Linked Bonds*	17.00	1.30	2.30
Master Limited Partnerships	8.00	6.70	6.40
Real Assets	8.00	7.00	7.00
Private Real Estate	12.00	5.70	6.10
Total	<u>120.00 %</u>		

Note: Assumptions are geometric.

* Levered 2x

** Numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

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

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

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's Proportionate Share of the Net Pension Liability	\$ 11,074,068	\$ 8,424,990	\$ 6,211,302

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Social Security

Several City's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. Employees contributed 6.2 percent of their gross salaries. The City contributed an amount equal to 6.2 percent of participants' gross salaries. The City has paid all contributions required through December 31, 2019.

Note 11 - Defined Benefit OPEB Plans

See Note 10 for a description of the net OPEB liability.

Plan Description – Ohio Public Employees Retirement System (OPERS)

OPERS administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

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Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for members in the Traditional Pension Plan and Combined Plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City had no contractually required contribution for 2019.

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

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

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

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

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

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

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exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

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

Beginning January 1, 2019, OP&F changed its retiree health care model and the self-insured health care plan is no longer offered. In its place is a stipend-based health care model. A stipend funded by OP&F is placed in individual Health Reimbursement Accounts that retirees use to be reimbursed for health care expenses.

The City's contractually required contribution to OP&F was \$12,134 for 2019.

OPEB Liability

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2018, and was determined by rolling forward the total OPEB liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability:			
Current Measurement Period	0.019204%	0.103214%	
Prior Measurement Period	<u>0.020210%</u>	<u>0.105243%</u>	
Change in Proportion	<u><u>-0.001006%</u></u>	<u><u>-0.002029%</u></u>	
Proportionate Share of the Net OPEB Liability	\$ 2,503,748	\$ 939,922	\$ 3,443,670

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

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subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, Including Inflation	3.25 percent to 10.75 percent (includes wage inflation at 3.25 percent)
Single Discount Rate:	
Current Measurement Date	3.96 percent
Prior Measurement Date	3.85 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate	3.71 percent
Health Care Cost Trend Rate	10.0 percent initial, 3.25 percent ultimate in 2029
Actuarial Cost Method	Individual entry age normal

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

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

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

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions

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are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a loss of 5.60 percent for 2018.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trusts	6.00	5.98
International Equities	22.00	7.83
Other Investments	17.00	5.57
Total	100.00 %	5.16 %

Discount Rate A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 3.71 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

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	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
City's Proportionate Share of the Net OPEB Liability	\$ 3,203,227	\$ 2,503,748	\$ 1,947,478

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries' project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Trend Rate	1% Increase
City's Proportionate Share of the Net OPEB Liability	\$ 2,406,645	\$ 2,503,748	\$ 2,615,585

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations

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

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

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.50 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	4.66 percent
Prior measurement date	3.24 percent
Cost of Living Adjustments	3.00 percent simple; 2.20 percent simple for increases based on the lesser of the increase in CPI and 3.00 percent

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

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

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

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate

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of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.80 %
Domestic Equity	16.00	5.50
Non-U.S. Equity	16.00	5.90
Private Markets	8.00	8.40
Core Fixed Income*	23.00	2.60
High Yield Fixed Income	7.00	4.80
Private Credit	5.00	7.50
U.S. Inflation Linked Bonds*	17.00	2.30
Master Limited Partnerships	8.00	6.40
Real Assets	8.00	7.00
Private Real Estate	12.00	6.10
Total	<u>120.00 %</u>	

Note: Assumptions are geometric.

* Levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 4.66 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 4.13 percent at December 31, 2018 and 3.16 percent at December 31, 2017, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 4.66 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2031. The long-term expected rate of return on health care investments was applied to projected costs through 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66 percent, as

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well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66 percent), or one percentage point higher (5.66 percent) than the current rate.

	1% Decrease (3.66%)	Current Discount Rate (4.66%)	1% Increase (5.66%)
City's Proportionate Share of the Net OPEB Liability	\$ 1,145,081	\$ 939,922	\$ 767,708

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate - The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

Note 12 – Debt

The City's long-term debt activity for the year ended December 31, 2019 was as follows:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019
Governmental Activities				
<i>Government Obligation Bonds</i>				
4.50% VW Municipal Court Improvement Bonds	\$ 1,245,000	\$ 0	\$ (60,000)	\$ 1,185,000
Total Governmental Activities	\$ 1,245,000	\$ 0	\$ (60,000)	\$ 1,185,000
Business-Type Activities				
<i>Direct Borrowings:</i>				
0.00% OPWC Allingham/Bonnewitz Pump Station	\$ 432,704	\$ 0	\$ (43,271)	\$ 389,433
0.00% OWDA Loan #8055	3,425,184	3,195,674	(175,080)	6,445,778
0.00% OWDA Loan #8055 -Principal Forgiveness	0	25,546	(25,546)	0
3.81% OWDA Loan #2550	952,509	0	(370,255)	582,254
4.65% OWDA Loan # 3576	210,571	0	(81,336)	129,235
Total Direct Borrowing	5,020,968	3,221,220	(695,488)	7,546,700
Total City Debt	\$ 6,265,968	\$ 3,221,220	\$ (755,488)	\$ 8,731,700

Governmental Activities:

Van Wert Municipal Court Improvement Bonds

On February 16, 2013, the City issued \$1,500,000 in un-voted general obligation bonds to for the purpose of acquiring and renovating a building for use as a municipal court. The bonds were issued for a twenty year period with final maturity in 2033. The bonds will be paid from the Municipal Court Special Projects Fund.

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Business-type Activities:

Direct Borrowings

Ohio Water Development Authority (OWDA)

Ohio Water Development Authority (OWDA) loan number 2550 relates to Wastewater Treatment Plant Improvements project and includes capitalized interest of \$334,067. The City does not receive all of the funds for this project due to OWDA paying the contractors directly. Semiannual payments are set at \$201,526, including interest. Loan is being retired from the sewer enterprise fund.

Ohio Water Development Authority (OWDA) loan number 3576 was a loan that was drawn during 2001 to be used as a payment against OWDA loan number 2550 during 2002. Total loan amount of \$1,166,155 payable over 20 years. The City is making semi-annual payments of \$45,097 including interest. Loan is being retired from the sewer enterprise fund.

OWDA loan 8055 was entered into in 2018. The loan is for \$7,053,200 for construction of a CSO pump station and diversion overflow structure. The loan is to be paid from the sewer enterprise fund in semi-annual installments for 20 years with the first payment scheduled for 2020.

Amortization information not available for OWDA Loan #8055.

In the event of default, as defined by each OWDA loan agreement, the lender may declare the full amount of the unpaid Project Participation Principal amount immediately due and payable and require the City to pay any fines or penalties incurred with interest.

Ohio Public Works Commission (OPWC) Loan:

The OPWC loan consists of \$865,410 owed to the Ohio Public Works Commission for the Allingham / Bonnewitz Pump Station. The OPWC loan is payable over a term of 20 years at an interest rate of 0%. The City began making semi-annual principal payments of \$21,635 on July 1, 2009. Loan is being retired from the sewer enterprise fund.

In the event of default, as defined by the OPWC loan agreement, the amount of default will be subject to 8 percent interest on all amounts due from date of default. Additionally, the Lender may declare all amounts immediately due and payable or require the City treasurer to pay the amounts due from funds appropriated to the county's undivided local government fund. The lender will also be entitled to collect any cost incurred in the event of default.

On April 7, 2020, OPWC deferred all July 2020 loan payments with no payment due until the January 2021 billing cycle with a six-month deferment for the life of the loan. This is reflected in the amortization schedules below.

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Principal and interest requirements to retire debt outstanding at December 31, 2019, were as follows:

Year	Municipal Court Bonds		Business Type Activities			Total	
	Principal	Interest	OWDA Loans		OPWC Loan	Principal	Interest
			Principal	Interest	Principal		
2020	\$ 65,000	\$ 53,325	\$ 469,658	\$ 19,642	\$ 21,634	\$ 556,292	\$ 72,967
2021	65,000	50,400	241,831	3,991	43,271	350,102	54,391
2022	70,000	47,475	0	0	43,270	113,270	47,475
2023	70,000	44,325	0	0	43,270	113,270	44,325
2024	75,000	41,175	0	0	43,271	118,271	41,175
2025-2029	430,000	152,100	0	0	194,717	624,717	152,100
2030-2033	410,000	47,250	0	0	0	410,000	47,250
Total	<u>\$ 1,185,000</u>	<u>\$ 436,050</u>	<u>\$ 711,489</u>	<u>\$ 23,633</u>	<u>\$ 389,433</u>	<u>\$ 2,285,922</u>	<u>\$ 459,683</u>

The Ohio Revised Code provides that net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the City. The Revised Code further provides that total voted and unvoted net debt of the City less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2019 were an overall debt margin of \$17,749,579 and an unvoted debt margin of \$9,111,954.

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Note 13 – 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 the resources in the government funds. The constraints placed on fund balance for the General Fund and all other governmental funds are presented below:

	General	Street Construction	Police & Fire	Other Governmental Funds	Total
Nonspendable for:					
Unclaimed Monies	\$ 8,930	\$ 0	\$ 0	\$ 0	\$ 8,930
Restricted for:					
Street Construction	0	2,843,427	0	0	2,843,427
Police & Fire Capital	0	0	817,724	0	817,724
Other Purposes	0	0	0	1,084,529	1,084,529
Total Restricted	<u>0</u>	<u>2,843,427</u>	<u>817,724</u>	<u>1,084,529</u>	<u>4,745,680</u>
Committed for:					
Other Purposes	260,248	0	0	182,173	442,421
Total Committed	<u>260,248</u>	<u>0</u>	<u>0</u>	<u>182,173</u>	<u>442,421</u>
Assigned for:					
Encumbrances	98,336	0	0	0	98,336
Subsequent Year Appropriations	717,291	0	0	0	717,291
Total Assigned	<u>815,627</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>815,627</u>
Unassigned	<u>1,339,873</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,339,873</u>
<i>Total Fund Balance</i>	<u>\$ 2,424,678</u>	<u>\$ 2,843,427</u>	<u>\$ 817,724</u>	<u>\$ 1,266,702</u>	<u>\$ 7,352,531</u>

Note 14 – Interfund Transfers

Fund	Transfer In	Transfer Out
General Fund	\$ 25,915	\$ 86,143
Street Construction Fund	0	3,580
Nonmajor Governmental Funds	86,143	2,191
Water Fund	0	9,539
Sewer Fund	0	9,354
Internal Service - Garage Fund	0	1,251
Total	<u>\$ 112,058</u>	<u>\$ 112,058</u>

Transfers to the General Fund were for funds that rolled with the General Fund for reporting purposes (27th pay and retirement).

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Note 15 – Construction and Contractual Commitments

	Contractual Commitment	Expended	Balance 12/31/2019
Titan Mechanical	\$ 178,900	\$ 62,006	\$ 116,894
Kohli & Kahler	74,778	34,530	40,248
MS Consultants	10,542	0	10,542
Choice One	290,169	228,913	61,256
Jones Henry	74,500	10,468	64,032
Poggemeyer	173,800	128,073	45,727
Total	<u>\$ 802,689</u>	<u>\$ 463,990</u>	<u>\$ 338,699</u>

Note 16 – Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual -Budget Basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than as restricted, committed or assigned fund balance (cash). The encumbrances outstanding at year end (budgetary basis) amount to \$98,336 in the general fund. The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement:

	General Fund
Cash Basis	\$ 495,180
Funds Budgeted Elsewhere	(16,113)
Adjustment for Encumbrances	(98,336)
Payroll Clearing Account Balance	(22,776)
Hospitalization Deficit	(21,765)
Budget Basis	<u>\$ 336,190</u>

Note 17 – Contingent Liabilities

Amounts grantor agencies pay to the City are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

City of Van Wert
Van Wert County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

Note 18 – Jointly Governed Organizations

Van Wert County Regional Planning Commission - (the Commission) is a jointly governed organization among the County, City of Van Wert, and Cities and villages within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of thirty members of which, two-thirds are elected officials. The County must be represented by the three County Commissioners, a County Health Official, the County Engineer, the County Recorder, the County Auditor, the Sheriff and the County Extension Agent. Other members include: a representative from all participating Boards of Township Trustees: the Mayor or a Council member of each participating incorporated village; two representatives from the City of Van Wert, one being the Mayor or his designee and one being appointed by City Council.

The remaining members of the Commission are representatives from public utility, minority groups, business industry, Ministerial Association, farm organizations, Chamber of Commerce and other representatives as deemed necessary by the Commission.

The Commission makes studies, maps, plan, recommendations and reports, concerning the physical, environmental, social, economic, and governmental characteristic, functions, and services of the County. The City contributed \$3,796 in 2019 for operations of the Commission. The Commission is a joint venture since it cannot continue to exist without the financial support of the City. The City does not have an equity interest in the joint venture. The Commission is not accumulating significant financial resources and is not experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. Complete financial statement can be obtained from the Commission located at 121 East Main, Van Wert, Ohio 45891.

Community Improvement Corporation of the City of Van Wert and County of Van Wert, Ohio (the CIC) – The CIC of the City of Van Wert and County of Van Wert, Ohio. The CIC is a jointly governed organization between the City and the County. The general purpose of the CIC is to pursue and maintain economic development within the County.

The CIC is governed by a Board of Trustees made up of fifteen members, who include: three elected or appointed officers of the City, to be designated annually by the Board of County Commissioners; six people to be designated annually by the Board of Trustees of the Van Wert Area Chamber of Commerce; the President of the Van Wert Industrial Development Corporation (in ex officio status); and two people who are residents of the County, to be elected at the annual meeting of the members by a majority of the members listed previously.

Note 19 – Related Organization

The constitution and laws of the State of Ohio establish the rights and privileges for the Woodland Union Cemetery, Van Wert County, (the Cemetery). Pleasant Township and the City of Van Wert appoint a three-member Board of Trustees to direct cemetery operations. 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 serves as the taxing authority, 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 Woodland Union Cemetery, 10968 Woodland Avenue, Van Wert, Ohio 45891.

City of Van Wert
Van Wert County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2019
(Continued)

Note 20 – Public Entity Risk Pool

Public Entities Pool of Ohio (PEP)

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. 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. (See Note 9)

Ohio Association of Public Treasurers Group Rating Plan (GRP)

The City participates in the Ohio Association of Public Treasurers Group Rating Plan (GRP) for workers' compensation. The GRP is an up-front premium savings for the City's Ohio Bureau of Workers' Compensation premium. The GRP is based upon claims that have already occurred for the member participants. The GRP is offered in conjunction with CompManagement, LLC, the City's Third Party administrator for workers' compensation. Within that capacity, CompManagement provides risk management services to the City of Van Wert. Each year, the participants pay an enrollment fee to the program to cover the costs of administering the program. (See Note 9)

Note 21 – Subsequent Event

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City's investment portfolio and the investments of the pension and other employee benefit plan in which the City participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated to a precise amount. However, the City is planning for a reduction of some key incomes sources such as Income and Gas Taxes (10%) and Parks and Recreation (50%).

During 2020, the City issued \$968,710 in bonds for the purpose of improving HVAC and lighting facilities at the city municipal building. The bonds will mature in 2040.

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OHIO AUDITOR OF STATE KEITH FABER



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

City of Van Wert
Van Wert County
515 East Main Street
Van Wert, Ohio 45891

To the 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 cash-basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Van Wert, Van Wert County, (the City) as of and for the year ended December 31, 2019, 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 12, 2020, wherein we noted the City uses a special purpose framework other than generally accepted accounting principles. We also noted that the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, and the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

City's Response to Findings

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

August 12, 2020

CITY OF VAN WERT
VAN WERT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2019

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

FINDING NUMBER 2019-001

Noncompliance

Ohio Rev. Code § 117.38(A) provides that each public office “shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.”

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the City to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The City prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the City’s ability to evaluate and monitor the overall financial condition of the City. To help provide the users with more meaningful financial statements, the City should prepare its annual financial statements according to generally accepted accounting principles.

Officials’ Response:

The City prepares its financial statements utilizing an Other Comprehensive Basis of Accounting. The City is unable to prepare GAAP statements due to the lack of an adequate inventory of assets. The City is willing to take the risk of being fined as opposed to incurring the expense of a city wide inventory.



CITY of VAN WERT

515 EAST MAIN STREET • VAN WERT, OHIO 45891

"Vincit Amor Patriae"

The Love of Country Conquers

MARTHA W. BALYEAT
City Auditor

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E.mail: mbalyeat@vanwert.org

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Ohio Revised Code 117.38, Ohio Admin Code 117-2-03 (B) The City did not file GAAP statements in the year 2018	Not corrected	The City prepares its financial statements utilizing Other Comprehensive Basis of Accounting. Repeated as Finding 2019-001
2018-002	AU-C Section 210 paragraphs A.14 and A.16. Not all transactions were posted to the correct accounts and/or funds	Partially corrected	See Management Letter – Financial Reporting

OHIO AUDITOR OF STATE KEITH FABER



CITY OF VAN WERT

VAN WERT COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 10/20/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov