



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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CITY OF EATON
PREBLE COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2014
Fiscal Year Audited Under GAGAS: 2014



Dave Yost • Auditor of State

City Council
City of Eaton
328 North Maple Street
Eaton, Ohio 45320

We have reviewed the *Independent Auditor's Report* of the City of Eaton, Preble County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 24, 2015

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CITY OF EATON
PREBLE COUNTY, OHIO
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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

City of Eaton
Preble County
328 North Maple Street
Eaton, Ohio 45320

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eaton, Preble County, Ohio (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Eaton, Preble County, Ohio, as of December 31, 2014, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Public Safety Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015, 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.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
June 18, 2015

CITY OF EATON, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014***

Unaudited

This discussion and analysis of the City of Eaton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- ❑ In total, net position increased \$3,492,803. Net position of governmental activities increased \$3,337,779, which represents a 23% change from 2013. Net position of business-type activities increased \$155,024 or 2% from 2013.
- ❑ General revenues accounted for \$5,369,579 in revenue or 39% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,472,558, or 61% of total revenues of \$13,842,137.
- ❑ The City had \$7,200,465 in expenses related to governmental activities; only \$5,168,665 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$5,369,579 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$2,749,558 in revenues and \$1,605,478 in expenditures. The general fund's fund balance increased from a balance of \$1,753,989 to \$1,774,161.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

CITY OF EATON, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014*

Unaudited

Government-wide Statements

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

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

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

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

- *Governmental Activities* – Most of the City's program's and services are reported here including public safety, public health, culture and recreation, community development, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer, refuse and parking services are reported as business-type activities.

Fund Financial Statements

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

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

CITY OF EATON, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the Water, Sewer, Refuse and Parking funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net position for 2014 compared to 2013.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$8,539,264	\$7,908,604	\$3,467,747	\$3,232,354	\$12,007,011	\$11,140,958
Capital Assets, Net	11,836,742	9,346,524	9,658,986	9,892,608	21,495,728	19,239,132
Total Assets	<u>20,376,006</u>	<u>17,255,128</u>	<u>13,126,733</u>	<u>13,124,962</u>	<u>33,502,739</u>	<u>30,380,090</u>
Long-term Debt Outstanding	1,494,914	1,697,259	3,390,229	3,580,204	4,885,143	5,277,463
Other Liabilities	314,988	329,544	195,550	158,828	510,538	488,372
Total Liabilities	<u>1,809,902</u>	<u>2,026,803</u>	<u>3,585,779</u>	<u>3,739,032</u>	<u>5,395,681</u>	<u>5,765,835</u>
Deferred Inflows of Resources	610,000	610,000	0	0	610,000	610,000
Net Position						
Net Investment in Capital Assets	10,972,027	8,244,518	6,458,941	6,499,197	17,430,968	14,743,715
Restricted	5,234,114	4,617,907	0	0	5,234,114	4,617,907
Unrestricted	1,749,963	1,755,900	3,082,013	2,886,733	4,831,976	4,642,633
Total Net Position	<u>\$17,956,104</u>	<u>\$14,618,325</u>	<u>\$9,540,954</u>	<u>\$9,385,930</u>	<u>\$27,497,058</u>	<u>\$24,004,255</u>

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CITY OF EATON, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended December 31, 2014

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal years 2014 compared to 2013:

	Governmental Activities		Business-type Activities		Total	
	2014	2013 *	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services and Sales	\$1,623,773	\$1,634,821	\$3,303,893	\$3,340,035	\$4,927,666	\$4,974,856
Operating Grants and Contributions	679,291	850,285	0	0	679,291	850,285
Capital Grants and Contributions	2,865,601	200,000	0	0	2,865,601	200,000
Total Program Revenues	<u>5,168,665</u>	<u>2,685,106</u>	<u>3,303,893</u>	<u>3,340,035</u>	<u>8,472,558</u>	<u>6,025,141</u>
General Revenues						
Property Taxes	622,957	689,463	0	0	622,957	689,463
Municipal Income Taxes	4,262,285	4,342,764	0	0	4,262,285	4,342,764
Intergovernmental Revenues, Unrestricted	202,665	318,472	0	0	202,665	318,472
Investment Earnings	4,169	3,321	0	0	4,169	3,321
Miscellaneous	277,503	201,424	0	0	277,503	201,424
Total General Revenues	<u>5,369,579</u>	<u>5,555,444</u>	<u>0</u>	<u>0</u>	<u>5,369,579</u>	<u>5,555,444</u>
Total Revenues	<u>10,538,244</u>	<u>8,240,550</u>	<u>3,303,893</u>	<u>3,340,035</u>	<u>13,842,137</u>	<u>11,580,585</u>
Program Expenses						
General Government	1,926,762	2,027,162	0	0	1,926,762	2,027,162
Public Safety	3,297,787	3,136,628	0	0	3,297,787	3,136,628
Public Health	159,173	162,148	0	0	159,173	162,148
Transportation	1,290,639	1,195,518	0	0	1,290,639	1,195,518
Community Development	201,648	203,239	0	0	201,648	203,239
Culture and Recreation	302,730	272,539	0	0	302,730	272,539
Interest and Fiscal Charges	21,726	29,103	0	0	21,726	29,103
Water	0	0	1,269,470	1,273,577	1,269,470	1,273,577
Sewer	0	0	1,168,272	1,122,148	1,168,272	1,122,148
Refuse	0	0	710,989	688,730	710,989	688,730
Parking	0	0	138	1,992	138	1,992
Total Expenses	<u>7,200,465</u>	<u>7,026,337</u>	<u>3,148,869</u>	<u>3,086,447</u>	<u>10,349,334</u>	<u>10,112,784</u>
Total Change in Net Position	3,337,779	1,214,213	155,024	253,588	3,492,803	1,467,801
Beginning Net Position	14,618,325	13,404,112	9,385,930	9,132,342	24,004,255	22,536,454
Ending Net Position	<u>\$17,956,104</u>	<u>\$14,618,325</u>	<u>\$9,540,954</u>	<u>\$9,385,930</u>	<u>\$27,497,058</u>	<u>\$24,004,255</u>

* - Changes made for consistency in reporting, there was no effect on Net Position.

CITY OF EATON, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014**

Unaudited

Governmental Activities

Net position of the City's governmental activities increased \$3,337,779. This represents a 23% change from 2013.

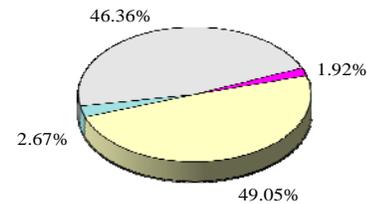
A decrease in operating grants and contributions can be attributed to a decrease in Home Investment Partnership Program grants. Ohio Department of Transportation grants received for the Park Avenue reconstruction project and traffic light upgrade project resulted in the increase in capital grants. A decrease in unrestricted intergovernmental revenues can be attributed to a decrease in estate tax receipts.

Expenses remained stable, increasing 2% from the prior year.

The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City.

Income taxes and property taxes made up 40% and 6% respectively of revenues for governmental activities for the City in 2014. The City's reliance upon tax revenues is demonstrated by the following graph indicating 46% of total revenues from general tax revenues:

Revenue Sources	2014	Percent of Total
General Tax Revenues	\$4,885,242	46.36%
Intergovernmental, Unrestricted	202,665	1.92%
Program Revenues	5,168,665	49.05%
General Other	281,672	2.67%
Total Revenue	<u>\$10,538,244</u>	<u>100.00%</u>



Business-Type Activities

Net position of the business-type activities increased \$155,024. Revenues and expenses were consistent with the previous year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$7,069,398, which is an increase from last year's balance of \$6,386,246. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2014 and 2013:

	Fund Balance December 31, 2014	Fund Balance December 31, 2013	Increase (Decrease)
General	\$1,774,161	\$1,753,989	\$20,172
Public Safety	650,841	610,785	40,056
Capital Improvement	3,625,022	3,106,316	518,706
Nonmajor Governmental	1,019,374	915,156	104,218
Total	<u>\$7,069,398</u>	<u>\$6,386,246</u>	<u>\$683,152</u>

CITY OF EATON, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014***

Unaudited

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

	2014	2013	Increase
	<u>Revenues</u>	<u>Revenues</u>	<u>(Decrease)</u>
Property Taxes	\$486,640	\$486,156	\$484
Municipal Income Taxes	1,144,531	1,144,176	355
Intergovernmental Revenue	199,538	337,437	(137,899)
Charges for Services	84,672	85,443	(771)
Licenses and Permits	109,443	103,517	5,926
Fees, Fines and Forfeitures	507,255	551,449	(44,194)
Investment Income	4,105	3,241	864
All Other Revenue	213,374	149,063	64,311
Total	<u>\$2,749,558</u>	<u>\$2,860,482</u>	<u>(\$110,924)</u>

General Fund revenues in 2014 decreased approximately 4% compared to revenues in fiscal year 2013. A decrease in estate taxes resulted in the decrease in intergovernmental revenue. A decrease in fees, fines and forfeitures can be attributed to a decrease in court costs, which was caused by a decline in the number of court cases.

	2014	2013	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
General Government	\$1,197,564	\$1,130,154	\$67,410
Public Health	21,027	21,073	(46)
Transportation	93,705	93,716	(11)
Community Development	200,617	203,389	(2,772)
Culture and Recreation	92,565	96,376	(3,811)
Total	<u>\$1,605,478</u>	<u>\$1,544,708</u>	<u>\$60,770</u>

General Fund expenditures increased \$60,770, or 4% from the prior year.

CITY OF EATON, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014***

Unaudited

Public Safety Fund – The Public Safety Fund reported an increase in fund balance of \$40,056, or 7%. Revenues and expenditures were consistent with the prior year.

Capital Improvement Fund – The City's Capital Improvement Fund balance increased 17%. Intergovernmental revenues of \$2.8 million were received from the Ohio Department of Transportation for infrastructure improvements.

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

During 2014, the City amended its General Fund budget several times to reflect changing circumstances.

Original budgeted and final budgeted revenues were not significantly different. Actual budget basis revenues were 8% higher than final budget estimates.

The difference between final budgeted appropriations and original budgeted appropriations was insignificant. Final budgeted appropriations exceeded actual expenditures by 11%. This was mainly the result of controlling expenditures across all general fund departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2014 the City had \$21,495,728 net of accumulated depreciation invested in land, buildings, infrastructure, and furniture and equipment. Of this total, \$11,836,742 was related to governmental activities and \$9,658,986 to the business-type activities. The following tables show fiscal year 2014 and 2013 balances:

	Governmental Activities		Increase (Decrease)
	2014	2013	
Land	\$820,439	\$820,439	\$0
Construction In Progress	0	1,337,502	(1,337,502)
Buildings	4,084,490	4,084,490	0
Infrastructure	8,485,651	4,987,998	3,497,653
Furniture and Equipment	6,220,918	5,446,680	774,238
Less: Accumulated Depreciation	(7,774,756)	(7,330,585)	(444,171)
Totals	\$11,836,742	\$9,346,524	\$2,490,218

CITY OF EATON, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2014	2013	
Land	\$582,108	\$582,108	\$0
Construction in Progress	0	563,059	(563,059)
Buildings and Systems	15,829,475	15,035,941	793,534
Furniture and Equipment	4,443,029	4,314,458	128,571
Less: Accumulated Depreciation	(11,195,626)	(10,602,958)	(592,668)
Totals	\$9,658,986	\$9,892,608	(\$233,622)

The increase in infrastructure in Governmental Activities capital assets can be attributed to the completion of the Park Avenue reconstruction project as well as the traffic light upgrade project. Equipment additions included the purchase of an ambulance. The increase in buildings and systems in Business-Type capital assets can be attributed to the Park Avenue reconstruction project. Additional information on the City's capital assets can be found in Note 8.

Debt

The following table summarizes the City's debt outstanding as of December 31, 2014 and 2013:

	2014	2013
Governmental Activities:		
General Obligation Bond	\$410,965	\$516,647
Tax Increment Financing Bond	0	39,109
Ohio Public Works Commission Loans	453,750	546,250
Compensated Absences	630,199	595,253
Total Governmental Activities	1,494,914	1,697,259
Business-Type Activities:		
Ohio Water Development Authority Loan	3,200,045	3,393,411
Compensated Absences	190,184	186,793
Total Business-Type Activities	3,390,229	3,580,204
Totals	\$4,885,143	\$5,277,463

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2014, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 12.

CITY OF EATON, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014***

Unaudited

CONTACTING THE CITY'S FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have any questions regarding this report or need additional information, contact Stephanie Risner, Director of Finance, City of Eaton, 328 North Maple Street, P.O. Box 27, Eaton, Ohio 45320.

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CITY OF EATON, OHIO

**Statement of Net Position
December 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Pooled Cash and Investments	\$ 6,375,116	\$ 2,913,400	\$ 9,288,516
Investments	20,000	0	20,000
Receivables:			
Taxes	1,676,973	0	1,676,973
Accounts	39,184	552,947	592,131
Intergovernmental Receivable	387,516	1,400	388,916
Special Assessments	40,475	0	40,475
Non-Depreciable Capital Assets	820,439	582,108	1,402,547
Depreciable Capital Assets, Net	11,016,303	9,076,878	20,093,181
Total Assets	<u>20,376,006</u>	<u>13,126,733</u>	<u>33,502,739</u>
Liabilities:			
Accounts Payable	141,209	124,424	265,633
Accrued Wages and Benefits	126,434	27,125	153,559
Intergovernmental Payable	40,920	0	40,920
Accrued Interest Payable	6,425	44,001	50,426
Noncurrent liabilities:			
Due within one year	386,344	273,046	659,390
Due in more than one year	1,108,570	3,117,183	4,225,753
Total Liabilities	<u>1,809,902</u>	<u>3,585,779</u>	<u>5,395,681</u>
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	610,000	0	610,000
Net Position:			
Net Investment in Capital Assets	10,972,027	6,458,941	17,430,968
Restricted For:			
Capital Improvement	3,909,871	0	3,909,871
Public Safety	499,912	0	499,912
Parks	55,642	0	55,642
Cemetery	92,243	0	92,243
Community Development	12,563	0	12,563
Indigent Driver	81,303	0	81,303
Computerization Upgrade	11,422	0	11,422
Special Projects	38,327	0	38,327
Streets and Highways	512,599	0	512,599
Perpetual Care:			
Expendable	10,232	0	10,232
Nonexpendable	10,000	0	10,000
Unrestricted	1,749,963	3,082,013	4,831,976
Total Net Position	<u>\$ 17,956,104</u>	<u>\$ 9,540,954</u>	<u>\$ 27,497,058</u>

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

**Statement of Activities
For the Year Ended December 31, 2014**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,926,762	\$ 894,942	\$ 0	\$ 0
Public Safety	3,297,787	622,184	3,383	0
Public Health	159,173	54,866	0	0
Transportation	1,290,639	24,044	519,908	2,865,601
Community Development	201,648	2	156,000	0
Culture and Recreation	302,730	27,735	0	0
Interest and Fiscal Charges	21,726	0	0	0
Total Governmental Activities	<u>7,200,465</u>	<u>1,623,773</u>	<u>679,291</u>	<u>2,865,601</u>
Business-Type Activities:				
Water	1,269,470	1,320,898	0	0
Sewer	1,168,272	1,291,649	0	0
Refuse	710,989	690,516	0	0
Parking	138	830	0	0
Total Business-Type Activities	<u>3,148,869</u>	<u>3,303,893</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 10,349,334</u>	<u>\$ 4,927,666</u>	<u>\$ 679,291</u>	<u>\$ 2,865,601</u>

General Revenues

Property Taxes Levied for:

- General Purposes
- Cemetery
- Capital Projects

Municipal Income Taxes

Intergovernmental, Unrestricted

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,031,820)	\$ 0	\$ (1,031,820)
(2,672,220)	0	(2,672,220)
(104,307)	0	(104,307)
2,118,914	0	2,118,914
(45,646)	0	(45,646)
(274,995)	0	(274,995)
(21,726)	0	(21,726)
<u>(2,031,800)</u>	<u>0</u>	<u>(2,031,800)</u>
0	51,428	51,428
0	123,377	123,377
0	(20,473)	(20,473)
<u>0</u>	<u>692</u>	<u>692</u>
<u>0</u>	<u>155,024</u>	<u>155,024</u>
<u>\$ (2,031,800)</u>	<u>\$ 155,024</u>	<u>\$ (1,876,776)</u>
485,482	0	485,482
35,930	0	35,930
101,545	0	101,545
4,262,285	0	4,262,285
202,665	0	202,665
4,169	0	4,169
<u>277,503</u>	<u>0</u>	<u>277,503</u>
<u>5,369,579</u>	<u>0</u>	<u>5,369,579</u>
3,337,779	155,024	3,492,803
<u>14,618,325</u>	<u>9,385,930</u>	<u>24,004,255</u>
<u>\$ 17,956,104</u>	<u>\$ 9,540,954</u>	<u>\$ 27,497,058</u>

CITY OF EATON, OHIO

**Balance Sheet
Governmental Funds
December 31, 2014**

	General	Public Safety	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Pooled Cash and Investments	\$ 1,624,413	\$ 476,899	\$ 3,344,617	\$ 929,187	\$ 6,375,116
Investments	0	0	0	20,000	20,000
Receivables:					
Taxes	762,004	347,723	421,482	145,764	1,676,973
Accounts	38,470	0	0	714	39,184
Intergovernmental	122,761	12,993	0	251,762	387,516
Special Assessments	0	0	40,475	0	40,475
Due from Other Funds	0	0	0	17,666	17,666
Interfund Loans Receivable	10,250	0	0	0	10,250
Total Assets	\$ 2,557,898	\$ 837,615	\$ 3,806,574	\$ 1,365,093	\$ 8,567,180
Liabilities:					
Accounts Payable	\$ 76,924	\$ 25,696	\$ 28,577	\$ 10,012	\$ 141,209
Accrued Wages and Benefits Payable	33,145	70,817	11,235	11,237	126,434
Intergovernmental Payable	34,203	6,717	0	0	40,920
Due to Other Funds	17,666	0	0	0	17,666
Interfund Loans Payable	0	0	0	10,250	10,250
Total Liabilities	161,938	103,230	39,812	31,499	336,479
Deferred Inflows of Resources:					
Unavailable Amounts	156,799	83,544	141,740	169,220	551,303
Property Tax Levy for Next Fiscal Year	465,000	0	0	145,000	610,000
Total Deferred Inflows of Resources	621,799	83,544	141,740	314,220	1,161,303
Fund Balance:					
Nonspendable	0	0	0	10,000	10,000
Restricted	55,264	650,841	3,625,022	1,009,374	5,340,501
Assigned	962,268	0	0	0	962,268
Unassigned	756,629	0	0	0	756,629
Total Fund Balance	1,774,161	650,841	3,625,022	1,019,374	7,069,398
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 2,557,898	\$ 837,615	\$ 3,806,574	\$ 1,365,093	\$ 8,567,180

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

***Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2014***

Total Governmental Fund Balances \$ 7,069,398

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 11,836,742

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 551,303

Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the funds.

General Obligation Bond Payable	(410,965)	
OPWC Loan Payable	(453,750)	
Compensated Absences Payable	(630,199)	
Accrued Interest Payable	(6,425)	(1,501,339)

Net Position of Governmental Activities \$ 17,956,104

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2014

	General	Public Safety	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$ 486,640	\$ 0	\$ 0	\$ 137,601	\$ 624,241
Municipal Income Taxes	1,144,531	1,427,708	1,714,825	0	4,287,064
Intergovernmental Revenue	199,538	3,383	2,865,601	673,010	3,741,532
Charges for Services	84,672	579,395	0	98,885	762,952
Licenses and Permits	109,443	0	0	565	110,008
Fees, Fines and Forfeitures	507,255	0	0	243,556	750,811
Special Assessments	0	0	19,822	0	19,822
Investment Income	4,105	0	0	64	4,169
All Other Revenue	213,374	468	27,353	36,308	277,503
Total Revenues	2,749,558	2,010,954	4,627,601	1,189,989	10,578,102
Expenditures:					
Current:					
General Government	1,197,564	43,909	237,894	260,132	1,739,499
Public Safety	0	2,987,089	300,876	12,083	3,300,048
Public Health	21,027	0	0	139,657	160,684
Transportation	93,705	0	400,588	465,473	959,766
Community Development	200,617	0	0	0	200,617
Culture and Recreation	92,565	0	59,547	116,217	268,329
Capital Outlay	0	0	3,066,398	0	3,066,398
Debt Service:					
Principal Retirement	0	0	92,500	144,791	237,291
Interest & Fiscal Charges	0	0	0	23,648	23,648
Total Expenditures	1,605,478	3,030,998	4,157,803	1,162,001	9,956,280
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,144,080	(1,020,044)	469,798	27,988	621,822
Other Financing Sources (Uses):					
Sale of Capital Assets	0	60,100	0	1,230	61,330
Transfers In	0	1,000,000	48,908	75,000	1,123,908
Transfers Out	(1,123,908)	0	0	0	(1,123,908)
Total Other Financing Sources (Uses)	(1,123,908)	1,060,100	48,908	76,230	61,330
Net Change in Fund Balance	20,172	40,056	518,706	104,218	683,152
Fund Balance at Beginning of Year	1,753,989	610,785	3,106,316	915,156	6,386,246
Fund Balance End of Year	\$ 1,774,161	\$ 650,841	\$ 3,625,022	\$ 1,019,374	\$ 7,069,398

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

***Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2014***

Net Change in Fund Balances - Total Governmental Funds \$ 683,152

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

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

Capital Outlay	3,260,828	
Depreciation Expense	(734,649)	2,526,179

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(35,961)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(39,858)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

General Obligation Bond Principal Retirement	105,682	
TIF Bond Principal Retirement	39,109	
OPWC Loan Principal Retirement	92,500	
Accrued Interest Payable	1,922	239,213

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

Compensated Absences		(34,946)
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<i>Change in Net Position of Governmental Activities</i>		<u><u>\$ 3,337,779</u></u>
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See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 455,918	\$ 465,000	\$ 488,262	\$ 23,262
Municipal Income Taxes	980,470	1,000,000	1,038,138	38,138
Intergovernmental Revenue	153,934	157,000	202,424	45,424
Charges for Services	73,535	75,000	58,527	(16,473)
Licenses and Permits	68,633	70,000	109,443	39,443
Fees, Fines and Forfeitures	525,336	535,800	506,181	(29,619)
Investment Income	2,451	2,500	4,105	1,605
All Other Revenues	195,023	198,908	304,675	105,767
Total Revenues	2,455,300	2,504,208	2,711,755	207,547
Expenditures:				
Current:				
General Government	1,661,605	1,464,003	1,299,684	164,319
Public Health	30,815	27,150	21,027	6,123
Transportation	128,820	113,500	94,228	19,272
Community Development	249,694	220,000	200,053	19,947
Total Expenditures	2,070,934	1,824,653	1,614,992	209,661
Excess (Deficiency) of Revenues Over (Under) Expenditures	384,366	679,555	1,096,763	417,208
Other Financing Sources (Uses):				
Transfers Out	(1,223,908)	(1,223,908)	(1,223,908)	0
Total Other Financing Sources (Uses):	(1,223,908)	(1,223,908)	(1,223,908)	0
Net Change in Fund Balance	(839,542)	(544,353)	(127,145)	417,208
Fund Balance at Beginning of Year	1,531,517	1,531,517	1,531,517	0
Prior Year Encumbrances	5,495	5,495	5,495	0
Fund Balance at End of Year	\$ 697,470	\$ 992,659	\$ 1,409,867	\$ 417,208

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Public Safety Fund
For the Year Ended December 31, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Taxes	\$ 1,325,112	\$ 1,290,000	\$ 1,297,673	\$ 7,673
Intergovernmental Revenue	0	0	3,383	3,383
Charges for Services	561,844	546,956	579,272	32,316
All Other Revenues	0	0	468	468
Total Revenues	1,886,956	1,836,956	1,880,796	43,840
Expenditures:				
Current:				
General Government	45,666	45,000	43,536	1,464
Public Safety	3,460,533	3,410,041	3,001,922	408,119
Total Expenditures	3,506,199	3,455,041	3,045,458	409,583
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,619,243)	(1,618,085)	(1,164,662)	453,423
Other Financing Sources (Uses):				
Sale of Capital Assets	60,000	60,000	60,100	100
Transfers In	1,000,000	1,000,000	1,000,000	0
Total Other Financing Sources (Uses):	1,060,000	1,060,000	1,060,100	100
Net Change in Fund Balance	(559,243)	(558,085)	(104,562)	453,523
Fund Balance at Beginning of Year	545,749	545,749	545,749	0
Prior Year Encumbrances	22,949	22,949	22,949	0
Fund Balance at End of Year	\$ 9,455	\$ 10,613	\$ 464,136	\$ 453,523

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2014**

	Business-Type Activities - Enterprise Funds		
	Major		
	Water	Sewer	Refuse
Assets			
Current Assets:			
Pooled Cash and Investments	\$ 1,294,063	\$ 1,407,373	\$ 203,915
Accounts Receivable	213,667	221,123	118,157
Intergovernmental Receivables	1,400	0	0
Total Current Assets	<u>1,509,130</u>	<u>1,628,496</u>	<u>322,072</u>
Noncurrent Assets:			
Capital Assets, Net	<u>6,110,082</u>	<u>3,528,773</u>	<u>20,131</u>
Total Noncurrent Assets	<u>6,110,082</u>	<u>3,528,773</u>	<u>20,131</u>
Total Assets	<u>7,619,212</u>	<u>5,157,269</u>	<u>342,203</u>
Liabilities			
Current Liabilities:			
Accounts Payable	41,172	32,610	50,642
Accrued Wages and Benefits	12,032	12,941	2,149
Accrued Interest Payable	44,001	0	0
OWDA Loans Payable - Current	198,721	0	0
Compensated Absences - Current	33,741	36,565	4,019
Total Current Liabilities	<u>329,667</u>	<u>82,116</u>	<u>56,810</u>
Noncurrent Liabilities:			
OWDA Loans Payable	3,001,324	0	0
Compensated Absences Payable	51,176	54,419	10,264
Total Noncurrent Liabilities	<u>3,052,500</u>	<u>54,419</u>	<u>10,264</u>
Total Liabilities	<u>3,382,167</u>	<u>136,535</u>	<u>67,074</u>
Net Position			
Net Investment in Capital Assets	2,910,037	3,528,773	20,131
Unrestricted	1,327,008	1,491,961	254,998
Total Net Position	<u>\$ 4,237,045</u>	<u>\$ 5,020,734</u>	<u>\$ 275,129</u>

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

<u>Nonmajor</u> <u>Parking</u>	<u>Total</u>
\$ 8,049	\$ 2,913,400
0	552,947
0	1,400
<u>8,049</u>	<u>3,467,747</u>
0	9,658,986
0	9,658,986
<u>8,049</u>	<u>13,126,733</u>
0	124,424
3	27,125
0	44,001
0	198,721
0	74,325
<u>3</u>	<u>468,596</u>
0	3,001,324
0	115,859
0	3,117,183
<u>3</u>	<u>3,585,779</u>
0	6,458,941
8,046	3,082,013
<u>\$ 8,046</u>	<u>\$ 9,540,954</u>

CITY OF EATON, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2014**

	Business-Type Activities - Enterprise Funds		
	Major		
	Water	Sewer	Refuse
Operating Revenues:			
Charges for Services	\$ 1,319,385	\$ 1,291,549	\$ 690,516
Other Operating Revenues	1,513	100	0
Total Operating Revenues	<u>1,320,898</u>	<u>1,291,649</u>	<u>690,516</u>
Operating Expenses:			
Personal Services	329,320	354,440	59,038
Fringe Benefits	147,941	160,540	29,169
Contractual Services	113,830	152,633	620,294
Materials and Supplies	166,251	49,977	39
Utilities	84,727	180,108	2,052
Depreciation	337,819	270,574	397
Other Operating Expenses	242	0	0
Total Operating Expenses	<u>1,180,130</u>	<u>1,168,272</u>	<u>710,989</u>
Operating Income (Loss)	140,768	123,377	(20,473)
Non-Operating Revenue (Expenses):			
Interest and Fiscal Charges	(89,340)	0	0
Total Non-Operating Revenues (Expenses)	<u>(89,340)</u>	<u>0</u>	<u>0</u>
Change in Net Position	51,428	123,377	(20,473)
Net Position Beginning of Year	4,185,617	4,897,357	295,602
Net Position End of Year	<u>\$ 4,237,045</u>	<u>\$ 5,020,734</u>	<u>\$ 275,129</u>

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

<u>Nonmajor</u>		<u>Total</u>
<u>Parking</u>		
\$	830	\$ 3,302,280
	<u>0</u>	<u>1,613</u>
	830	<u>3,303,893</u>
	117	742,915
	21	337,671
	0	886,757
	0	216,267
	0	266,887
	0	608,790
	<u>0</u>	<u>242</u>
	138	<u>3,059,529</u>
	692	244,364
	<u>0</u>	<u>(89,340)</u>
	<u>0</u>	<u>(89,340)</u>
	692	155,024
	<u>7,354</u>	<u>9,385,930</u>
\$	<u>8,046</u>	\$ <u>9,540,954</u>

CITY OF EATON, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	Business-Type Activities-Enterprise Funds		
	Major		
	Water	Sewer	Refuse
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,341,519	\$1,315,441	\$699,290
Cash Payments for Goods and Services	(344,280)	(377,686)	(622,075)
Cash Payments to Employees	(476,274)	(514,435)	(86,381)
Net Cash Provided (Used) by Operating Activities	<u>520,965</u>	<u>423,320</u>	<u>(9,166)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
OWDA Loan Retirement	(193,366)	0	0
Interest and Fiscal Charges	(91,998)	0	0
Acquisition and Construction of Assets	(200,696)	(161,134)	0
Net Cash Used by Capital and Related Financing Activities	<u>(486,060)</u>	<u>(161,134)</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	34,905	262,186	(9,166)
Cash and Cash Equivalents at Beginning of Year	1,259,158	1,145,187	213,081
Cash and Cash Equivalents at End of Year	<u>\$1,294,063</u>	<u>\$1,407,373</u>	<u>\$203,915</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$140,768	\$123,377	(\$20,473)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	337,819	270,574	397
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	20,981	23,792	8,774
Increase in Intergovernmental Receivable	(360)	0	0
Increase in Accounts Payable	20,770	5,007	310
Increase (Decrease) in Accrued Wages and Benefits	32	(102)	62
Increase in Compensated Absences	955	672	1,764
Total Adjustments	<u>380,197</u>	<u>299,943</u>	<u>11,307</u>
Net Cash Provided (Used) by Operating Activities	<u>\$520,965</u>	<u>\$423,320</u>	<u>(\$9,166)</u>

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

<u>Nonmajor</u> <u>Parking</u>	<u>Totals</u>
\$830	\$3,357,080
0	(1,344,041)
<u>(175)</u>	<u>(1,077,265)</u>
<u>655</u>	<u>935,774</u>
0	(193,366)
0	(91,998)
<u>0</u>	<u>(361,830)</u>
<u>0</u>	<u>(647,194)</u>
655	288,580
<u>7,394</u>	<u>2,624,820</u>
<u>\$8,049</u>	<u>\$2,913,400</u>
\$692	\$244,364
0	608,790
0	53,547
0	(360)
0	26,087
(37)	(45)
<u>0</u>	<u>3,391</u>
<u>(37)</u>	<u>691,410</u>
<u>\$655</u>	<u>\$935,774</u>

CITY OF EATON, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2014***

	<u>Agency Funds</u>
Assets:	
Receivables:	
Intergovernmental	\$ 2,615
Total Assets	<u>2,615</u>
Liabilities:	
Accounts Payable	<u>2,615</u>
Total Liabilities	<u>\$ 2,615</u>

See accompanying notes to the basic financial statements

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton (the City) is a municipal corporation established under the laws of the State of Ohio, which operates under its own charter. The City was incorporated on July 1, 1961 and operates under a Council/Manager form of government. The council members are elected by separate ballot from the municipality at large for four-year terms. Council elects one of their members to serve as Mayor annually. As a council member, the Mayor has the right to vote on all issues before council. Council appoints the City Manager, Director of Finance and Director of Law. The City Manager appoints all department managers of the City.

The financial statements are presented as of December 31, 2014 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

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

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, departments, boards and agencies that are not legally separate from the City. For the City this includes public safety (police, fire and emergency rescue), highway and streets, parks and recreation, public improvements, community development, building and zoning, public health and welfare, and general administrative services. In addition, the City provides water treatment and distribution services, sanitary sewer services, refuse collection and disposal services and parking services, which are reported as enterprise funds. Council and the City Manager have direct responsibility for these activities.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

The following are the City's major governmental funds:

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

Public Safety Fund – The public safety fund accounts for 1/2% income tax revenue that is approved by the voters of the City every three years and ambulance removal fees and contracts with townships for Fire and EMS services.

Capital Improvement Fund – The capital improvement fund accounts for that portion of municipal income tax designated by Council for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operations of the City.

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CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Proprietary Funds

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities and deferred outflows/inflows of resources associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

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

Water Fund – This fund is used to account for the provision of water treatment and distribution to the residents and commercial users of the City and some residents of the County.

Sewer Fund – This fund is used to account for sanitary sewer services provided to the residents and commercial users of the City.

Refuse Fund – This fund is used to account for the collection and disposal of refuse by the City.

Fiduciary Funds - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary funds are agency funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. This fund is used to account for receipts to be transferred to the County Law Library.

C. Basis of Presentation – Financial Statements

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

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, deferred outflows/inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

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

Property taxes measurable as of December 31, 2014 but which are not intended to finance 2014 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 4.

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

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Tax Budget

The City Manager submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2014.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. During 2014, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—for the General Fund and Public Safety Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

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

5. Encumbrances

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

6. Budgetary Basis of Accounting

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

CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

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

	Net Change in Fund Balance	
	General Fund	Public Safety Fund
GAAP Basis (as reported)	\$20,172	\$40,056
Increase (Decrease):		
Accrued Revenues at December 31, 2014 received during 2015	(311,686)	(277,172)
Accrued Revenues at December 31, 2013 received during 2014	190,920	149,318
Accrued Expenditures at December 31, 2014 paid during 2015	161,938	103,230
Accrued Expenditures at December 31, 2013 paid during 2014	(169,069)	(107,231)
Outstanding Encumbrances	(1,776)	(12,763)
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(17,644)	0
Budget Basis	(\$127,145)	(\$104,562)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasury Asset Reserve (STAR Ohio). The amounts in STAR Ohio are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in STAR Ohio is considered to be cash equivalents. See Note 3, "Cash, Cash Equivalents and Investments."

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements) which are reported at cost, which approximates fair value. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 3, "Cash, Cash Equivalents and Investments."

The City invested funds in STAR Ohio during 2014. STAR 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 does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2014.

H. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

1. Property, Plant and Equipment - Governmental Activities

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

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

CITY OF EATON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

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

3. Depreciation

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

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings and Systems	15 - 45
Infrastructure	20
Equipment	3 - 15

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CITY OF EATON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
Ohio Public Works Commission Loans Payable	Capital Improvement Fund
General Obligation Bond	Municipal Court Special Projects Fund
Tax Increment Financing Bond	Tax Increment Financing Fund
Compensated Absences	General Fund, Public Safety Fund, Street Construction, Maintenance and Repair Fund, Cemetery Fund, Recreation Fund, Fort St. Clair Fund, Capital Improvement Fund, Water Fund, Sewer Fund, Refuse Fund
Ohio Water Development Authority Loan Payable	Water Fund

J. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the water, sewer, and refuse enterprise funds when earned, and the related liability is reported within the fund.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position

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

L. Fund Balances

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

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

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

Committed – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority. For the City, these constraints consist of ordinances passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts. The City has no fund balances reported as committed at December 31, 2014.

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

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

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

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Pensions

The provision for pension cost is recorded when the related payroll is accrued and the obligation is incurred.

N. Interfund Activity

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

O. Operating Revenues and Expenses

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items to report during fiscal year 2014.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City reports no deferred outflows of resources.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Deferred Outflows/Inflows of Resources (Continued)

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

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CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 2 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	Public Safety Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Endowments	\$0	\$0	\$0	\$10,000	\$10,000
Total Nonspendable	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>
Restricted:					
Public Safety	0	650,841	0	145,570	796,411
Public Health	0	0	0	112,422	112,422
Transportation	0	0	0	384,321	384,321
Community Development	0	0	0	12,563	12,563
Culture and Recreation	55,264	0	0	69,678	124,942
Capital Outlay	0	0	3,625,022	240,068	3,865,090
Debt Service	0	0	0	44,752	44,752
Total Restricted	<u>55,264</u>	<u>650,841</u>	<u>3,625,022</u>	<u>1,009,374</u>	<u>5,340,501</u>
Assigned:					
Encumbrances	1,341	0	0	0	1,341
Budget Resource	960,927	0	0	0	960,927
Total Assigned	<u>962,268</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>962,268</u>
Unassigned:	756,629	0	0	0	756,629
Total Fund Balances	<u>\$1,774,161</u>	<u>\$650,841</u>	<u>\$3,625,022</u>	<u>\$1,019,374</u>	<u>\$7,069,398</u>

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CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. At December 31, 2014, the carrying amount of the City's deposits was \$5,528,936 and the bank balance was \$5,768,471. Of the bank balance, \$2,500,606 was covered by federal depository insurance and \$3,267,865 was exposed to custodial risk and was collateralized with securities held by the pledging financial institutions trust department or agent but not in the City's name.

B. Investments

Pursuant to the City Charter, the City is authorized to invest funds, in compliance with the Ohio Revised Code, in bonds or notes guaranteed by the United States, bonds or obligations of the State of Ohio, the State Treasurer's investment pool or deposits in eligible institutions. Maturities must be less than two years.

Interest rate risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the City manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to approximately two years.

Credit Risk – Per the City's policy, investments are limited to those explicitly guaranteed by the U.S. government, to STAR Ohio (rated AAAM by Standard & Poor's), or to high yield cash investments with authorized banks which pledge pooled securities as collateral.

Concentration of credit risk – The City places no limit on the amount that it may invest with any one issuer.

At December 31, 2014, the City's investments were amounts on deposit with STAR Ohio, with a fair value of \$2,359,559, pooled certificates of deposit in the amount of \$1,400,021, and segregated certificates of deposit in the amount of \$20,000. The investments in STAR Ohio and pooled certificates of deposit are included in "Pooled Cash and Investments" and the segregated certificates of deposit are included in "Investments" on the Statement of Net Position.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2014 were levied after October 1, 2013 on assessed values as of January 1, 2013, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2011. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Eaton. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2014 was \$2.70 per \$1,000 of assessed value. The assessed value upon which the 2013 levy (collected in 2014) was based was \$145,320,750. This amount constitutes \$139,840,150 in real property assessed value and \$5,480,600 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .270% (2.70 mills) of assessed value.

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CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 4 - TAXES (Continued)

B. Income Tax

Municipalities within the State of Ohio are permitted by state statute to levy an income tax up to a maximum rate of 1% subject to the approval of the local legislative body. Any rate in excess of 1% requires the approval of a majority of the eligible voters residing within the municipal corporation. The City income tax rate of 1.5% is levied by ordinance. One percent (1%) of the tax is levied indefinitely and 0.5% was renewed by the voters of the City in November 2013. The 0.5% tax will expire December 31, 2016. This tax is applicable to substantially all income earned within the City. Employers within the City are required to withhold income tax on employee compensation and remit this withholding quarterly. Corporations, partnerships, and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. Residents of the City are required to pay City income taxes on income they earn outside the City; however, credit is allowed for all income tax paid to other municipalities.

NOTE 5 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2014:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$1,123,908
Public Safety Fund	1,000,000	0
Capital Improvement Fund	48,908	0
Nonmajor Governmental Funds	75,000	0
Totals	<u>\$1,123,908</u>	<u>\$1,123,908</u>

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

CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

	Interfund Loans Receivable	Interfund Loans Payable	Due from Other Funds	Due to Other Funds
General Fund	\$10,250	\$0	\$0	\$17,666
Nonmajor Governmental Funds	0	10,250	17,666	0
Totals	<u>\$10,250</u>	<u>\$10,250</u>	<u>\$17,666</u>	<u>\$17,666</u>

The Interfund Loans Receivable/Payable was the result of money advanced from the General Fund to the Municipal Court Special Projects Fund to assist with cash flow.

Due from/to Other Funds at December 31, 2014 represent charges for services or reimbursable expenses approved and authorized in 2014 but not made until 2015. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. All are expected to be paid within one year.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2014 consisted of current and delinquent property taxes, special assessments, accounts, intergovernmental grants, and interfund transactions. All receivables are considered collectible in full due to the ability to foreclose for nonpayment of taxes and the stable condition of State programs. A summary of Intergovernmental Receivables follows:

Type	Amount
Governmental Activities:	
Local Government Revenue Assistance	\$62,301
Estate Taxes	1,964
Homestead and Rollback	35,761
Gasoline and Excise Tax	147,501
Motor Vehicle License Fees	102,417
Public Safety	12,993
Other	24,579
Total Governmental Activities	<u>387,516</u>
Business-Type Activities:	
Water	1,400
Total Business-Type Activities	<u>1,400</u>
Totals	<u>\$388,916</u>

CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2014:

Historical Cost:

Class	December 31, 2013	Additions	Deletions	December 31, 2014
<i>Capital assets not being depreciated:</i>				
Land	\$820,439	\$0	\$0	\$820,439
Construction in Progress	1,337,502	0	(1,337,502)	0
Sub-total	2,157,941	0	(1,337,502)	820,439
<i>Capital assets being depreciated:</i>				
Buildings	4,084,490	0	0	4,084,490
Infrastructure	4,987,998	3,497,653	0	8,485,651
Furniture and Equipment	5,446,680	1,100,677	(326,439)	6,220,918
Total Cost	<u>\$16,677,109</u>	<u>\$4,598,330</u>	<u>(\$1,663,941)</u>	<u>\$19,611,498</u>
<i>Accumulated Depreciation:</i>				
Class	December 31, 2013	Additions	Deletions	December 31, 2014
Buildings	(\$1,761,588)	(\$115,862)	\$0	(\$1,877,450)
Infrastructure	(1,491,236)	(320,338)	0	(1,811,574)
Furniture and Equipment	(4,077,761)	(298,449)	290,478	(4,085,732)
Total Accumulated Depreciation	<u>(\$7,330,585)</u>	<u>(\$734,649) *</u>	<u>\$290,478</u>	<u>(\$7,774,756)</u>
<i>Net Value:</i>	<u>\$9,346,524</u>			<u>\$11,836,742</u>

* Depreciation expenses were charged to governmental functions as follows:

General Government	\$192,174
Public Safety	174,344
Public Health	585
Transportation	332,934
Culture and Recreation	34,612
Total Depreciation Expense	<u>\$734,649</u>

CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2014:

Historical Cost:

Class	December 31, 2013	Additions	Deletions	December 31, 2014
<i>Capital assets not being depreciated:</i>				
Land	\$582,108	\$0	\$0	\$582,108
Construction in Progress	563,059	0	(563,059)	0
Sub-total	1,145,167	0	(563,059)	582,108
<i>Capital assets being depreciated:</i>				
Buildings and Systems	15,035,941	793,534	0	15,829,475
Furniture and Equipment	4,314,458	144,693	(16,122)	4,443,029
Total Cost	\$20,495,566	\$938,227	(\$579,181)	\$20,854,612
<i>Accumulated Depreciation:</i>				
Class	December 31, 2013	Additions	Deletions	December 31, 2014
Buildings and Systems	(\$7,198,433)	(\$448,291)	\$0	(\$7,646,724)
Furniture and Equipment	(3,404,525)	(160,499)	16,122	(3,548,902)
Total Accumulated Depreciation	(\$10,602,958)	(\$608,790)	\$16,122	(\$11,195,626)
<i>Net Value:</i>	\$9,892,608			\$9,658,986

NOTE 9 – DEFINED BENEFIT PENSION PLANS

All of the City’s full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

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

The following information was provided by OPERS to assist the City in complying with GASB Statement No. 27, “Accounting for Pensions by State and Local Government Employers.”

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by OPERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The ORC provides statutory authority for employee and employer contributions. For 2014, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2014 employer contribution rate for local government employer units was 14.00% of covered payroll, which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional and Combined Plans was 12.0% for calendar year 2014. The contribution requirements of plan members and the City are established and may be amended by the OPERS Board. The City’s contributions for pension obligations to OPERS for the years ending December 31, 2014, 2013, and 2012 were \$340,876, \$367,250 and \$288,902, respectively, which were equal to the required contributions for each year.

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

All City full-time police officers and full-time firefighters participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164, by calling (614) 228-2975, or by visiting www.op-f.org.

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

From January 1, 2014 through July 1, 2014, plan members were required to contribute 10.75% of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members were required to contribute 11.5% of their annual covered salary. Throughout 2014, employers were required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2014, 19.0% of annual covered salary for police and 23.5% of annual covered salary for firefighters, respectively, were the portions used to fund pension obligations. The City’s contributions for pension obligations to the OP&F Fund for the years ending December 31, 2014, 2013, and 2012 were \$166,567, \$144,226 and \$114,612 for police officers and \$54,685, \$44,217 and \$33,967 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B Premium reimbursement, to qualifying member of both the Traditional Pension and the Combined Plans. Members of the Member Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. OPERS’ eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

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

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

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 2.0% for calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remains at 2% for both plans, as recommended by the OPERS actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OPERS for the years ending December 31, 2014, 2013, and 2012 were \$56,813, \$28,250 and \$115,561, respectively, which were equal to the required contributions for each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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

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

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

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2014, 2013, and 2012 were \$4,383, \$32,840 and \$60,676 for police and \$1,164, \$7,846 and \$13,292 for firefighters, respectively, which were equal to the required contributions for each year.

CITY OF EATON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 11 – COMPENSATED ABSENCES

In accordance with GASB Statement 16, the City accrues unpaid vacation as it is earned and certain portions of sick leave pay as payment becomes probable.

Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>30-40 Hr/Wk Employee Hours Earned/Month</u>
0 thru 5	8.0
5 thru 10	10.7
10 thru 15	12.0
15 thru 30	13.3
Over 30 years	16.0

Appointed employees, which include all department heads and division heads, shall receive 20 days of vacation per year.

No more than the amount of vacation accrued in the previous twenty-four month period can be carried forward into the next calendar year without written consent of the City Manager. Without this approval, any excess is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation up to a maximum of the two-year accrual. Amounts in excess of the two-year accrual are paid currently. Therefore, the entire liability as determined by the above policy is recognized for each fund.

All employees can earn sick leave at the rate of 10 hours for each month of work completed and appointed employees receive 15 days sick leave per year.

It is the policy of the City that an employee with a least three years' service who terminates employment or whose employment is terminated with the City (for other than disciplinary reasons) is entitled to receive payment on the basis of one day's pay for each two days of accrued sick leave not to exceed 120 days for a maximum of 60 days paid. Sick leave is recorded as a long-term obligation, unless there is an indication that the obligation will be liquidated with expendable available financial resources within one year (e.g. announced retirement date).

As of December 31, 2014, the accrued liability for unpaid compensated absences was \$820,383 for all funds. The liability for unpaid compensated absences will be paid from the General Fund, the Public Safety Fund, Street Construction, Maintenance and Repair Fund, Cemetery Fund, Recreation Fund, Fort St. Clair Fund, Capital Improvement Fund, Water Fund, Sewer Fund, and Refuse Fund.

CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 12 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2014 were as follows:

Interest Rate	Purpose	Maturity Date	Balance December 31, 2013	Additions	Deductions	Balance December 31, 2014	Amount Due Within One Year
Governmental Activities:							
General Obligation Bond:							
4.69%	Municipal Court Facility	2018	\$516,647	\$0	(\$105,682)	\$410,965	\$110,697
Tax Increment Financing Bond:							
3.56%	Washington-Jackson Street	2014	39,109	0	(39,109)	0	0
Ohio Public Works Commission Loans:							
0.00%	Washington-Jackson Street	2019	302,500	0	(55,000)	247,500	55,000
0.00%	Downtown Improvements	2020	243,750	0	(37,500)	206,250	37,500
Total Ohio Public Works Commission Loans			546,250	0	(92,500)	453,750	92,500
Compensated Absences			595,253	196,951	(162,005)	630,199	183,147
Total Governmental Activities			1,697,259	196,951	(399,296)	1,494,914	386,344
Business-Type Activities:							
Ohio Water Development Authority Loan							
2.75%	Water Treatment Plant and Tower	2027	3,393,411	0	(193,366)	3,200,045	198,721
Compensated Absences			186,793	55,454	(52,063)	190,184	74,325
Total Business-Type Activities			3,580,204	55,454	(245,429)	3,390,229	273,046
Total Other Long-Term Obligations			\$5,277,463	\$252,405	(\$644,725)	\$4,885,143	\$659,390

On July 1, 1997, the City entered into a loan agreement with the Ohio Public Works Commission (OPWC) for renovation of the City's downtown area. This loan was approved for a total of \$750,000 with a 0% interest rate. Proceeds were drawn down as funds were expended. As of December 31, 1999, the City had drawn down the entire \$750,000 of this loan. The repayment of this debt began in 2000. Annual required payments are \$37,500 and are paid out the Capital Improvement Fund.

On March 5, 2003, the City issued bonds in the amount of \$1,375,000 for the purpose of paying costs of constructing a new Eaton Municipal Court Facility, including landscaping, utility and other site improvements, and furniture and equipment. The bonds carry an interest rate of 4.69% per annum and mature on March 1, 2018. The 2014 debt service payment, which includes interest, was \$128,689 and was paid out of the Municipal Court Special Projects Fund.

On April 20, 2004, the City borrowed \$550,000 under the State of Ohio Tax Increment Financing (TIF) program for the purpose of paying costs for the extension of Washington, Jackson and Aukerman Streets. The loan carries an interest rate of 3.56% per annum and matured on April 20, 2014.

CITY OF EATON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 12 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

On January 1, 2007, the City entered into a loan agreement with the Ohio Water Development Authority (OWDA) for the construction of a new 1.5 million gallon water tower and the renovation of the main water treatment plant. This loan was approved for eligible project costs for an amount not to exceed \$5,247,302 at an interest rate of 2.75%, payable in semi-annual installments for 20 years. Established as a draw loan, the final loan amount was \$4,367,476. Debt payment began on July 1, 2008 with a 20 year repayment. The 2014 debt service payment, which includes interest, was \$285,364 and was paid out of the Water Fund.

On July 1, 2008, the City entered into a loan agreement with the Ohio Public Works Commission (OPWC) for reconstruction of Washington-Jackson Road. The loan was for \$550,000 with a 0% interest rate. Proceeds were drawn down as funds were expended on the project and repayment began on July 1, 2010. Annual payments are \$55,000 and are paid out of the Capital Improvement Fund.

A. Long-Term Funding Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014 were as follows:

Years	Governmental Activities				Business-Type Activities	
	General Obligation Bond		OPWC Loans		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$110,697	\$17,991	\$92,500	\$0	\$198,721	\$86,645
2016	115,950	12,739	92,500	0	204,223	81,142
2017	121,450	7,237	92,500	0	209,877	75,487
2018	62,868	1,474	92,500	0	215,689	69,677
2019	0	0	65,000	0	221,661	63,704
2020-2024	0	0	18,750	0	1,203,841	222,985
2025-2028	0	0	0	0	946,033	52,741
Totals	<u>\$410,965</u>	<u>\$39,441</u>	<u>\$453,750</u>	<u>\$0</u>	<u>\$3,200,045</u>	<u>\$652,381</u>

CITY OF EATON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2014, the City contracted with the U.S. Specialty Insurance Company to provide conventional insurance protection.

The type of coverage and deductible for each is as follows:

<u>Type of Coverage</u>	<u>Per Occurrence</u>	<u>Deductible</u>
Property insurance	\$26,506,727	1,000
General liability	\$1,000,000/3,000,000	1,000
Police liability	\$1,000,000/1,000,000	2,500
Umbrella	\$5,000,000	2,500
Employee dishonesty	\$100,000	250
Crime	\$25,000	250
Inland marine	\$1,589,219	1,000
Automobile	\$3,866,201	1,000*

* \$500 for comprehensive, \$1,000 on collision

There have been no significant reductions in coverage as compared to the prior year. Settled claims have not exceeded this commercial coverage in any of the past five years.

The City joined a workers' compensation group rating plan, which allows local governments to group the experience of employers for workers' compensation rating purposes. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries.

NOTE 14 - CONTINGENCIES

Under the terms of federal grants, periodic audits are required and certain expenditures may be questioned as not appropriate under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. It is the opinion of management that any questioned costs will be resolved in favor of the City and that reimbursement, if any, will not have a material effect on the City's financial position.

The City was a defendant in a number of lawsuits pertaining to matters, which are incidental to performing routine governmental and other functions. Legal counsel cannot estimate exposure, if any, in these suits. All cases are being defended vigorously by the City. It is the opinion of management and the City's legal counsel that sufficient resources will be available for the payment of such claims, if any, upon ultimate settlement.



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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

City of Eaton
Preble County
328 North Maple Street
Eaton, Ohio 45320

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 financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Eaton, Preble County, Ohio (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 18, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
June 18, 2015



Dave Yost • Auditor of State

CITY OF EATON

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 6, 2015