



Dave Yost • Auditor of State

**CITY OF JACKSON
JACKSON COUNTY
DECEMBER 31, 2016**

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JACKSON COUNTY
DECEMBER 31, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Jackson
Jackson County
P.O. Box 1090
Jackson, Ohio 45640

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 Jackson, Jackson County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Jackson County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the City restated the January 1, 2016 fund balance in the Sewer Enterprise Fund, decreasing it by \$284,978 as a result of omitting a loan payable to the Ohio Public Works Commission. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 20, 2017

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Unaudited

The management's discussion and analysis of the City of Jackson's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The total net position of the City increased \$1,954,260 from the 2015 total net position. Net position of governmental activities increased \$252,086 or 2.32% from the 2015 net position and net position of business-type activities increased \$1,702,174 or 3.83% from the 2015 restated net position.
- General revenues accounted for \$2,053,472 or 35.25% of total governmental activities revenue. Program specific revenues accounted for \$3,772,391 or 64.75% of total governmental activities revenue.
- The City had \$5,573,777 in expenses related to governmental activities; \$3,772,391 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,801,386 were offset by general revenues (primarily property and other local taxes and unrestricted grants and entitlements) of \$2,053,472.
- The General Fund had revenues and other financing sources of \$3,869,712 in 2016. The General Fund had expenditures and other financing uses of \$3,633,453 in 2016. The net increase in fund balance for the General Fund was \$236,259 or 16.43%.
- Net position for the business-type activities, which are made up of the water, sewer, and electric major enterprise funds and the railroad and garbage nonmajor enterprise funds, increased in 2016 by \$1,702,174. This increase in net position was due primarily to charges for service revenues being greater than expenses.
- The Water Fund had operating revenues of \$2,429,003 and operating expenses of \$2,544,845 in 2016. The Water Fund also had non-operating expenses of \$98,839 and non-operating revenues of \$27,754. The net decrease in net position for the Water Fund was \$186,927 or 3.27%.
- The Sewer Fund had operating revenues of \$4,001,564 and operating expenses of \$3,937,169 in 2016. The Sewer Fund also had net non-operating expenses of \$75,478, non-operating revenue of \$4,546, and capital contributions of \$91,878. The net increase in net position for the Sewer Fund was \$85,341 or 0.71%.
- The Electric Fund had operating revenues of \$20,596,456 and operating expenses of \$18,655,865 in 2016. The Electric Fund also had non-operating revenues of \$845 and non-operating expenses of \$65,889. The net increase in net position for the Electric Fund was \$1,875,547 or 8.99%.
- In the General Fund, the actual revenues and other financing sources were \$188,157 more than they were in the final budget and actual expenditures and other financing uses were \$750,125 less than the amount in the final budget. Budgeted revenues and other financing sources decreased \$24,106 from original to the final budget and budgeted expenditures and other financing uses increased \$115,067 from original to the final budget.

Using this Annual Financial Report

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

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Unaudited

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

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The City's statement of net position and statement of activities can be found on pages 17-19 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 11.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Unaudited

Governmental Funds

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's only major governmental fund is the General Fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, railroad, and garbage functions. The City's water, sewer and Electric Funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 25-28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-77 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 78 - 83 of this report.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
Unaudited

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The 2015 net position as been restated as described Note 3. The table below provides a summary of the City's net position for 2016 compared to 2015:

			Net Position		2016 Total	Restated 2015 Total
	2016 Governmental Activities	2015 Governmental Activities	2016 Business-type Activities	Restated 2015 Business-type Activities		
<u>Assets</u>						
Current and other assets	\$ 6,909,258	\$ 7,225,543	\$ 20,675,569	\$ 21,542,457	\$ 27,584,827	\$ 28,768,000
Investment in Joint Venture	-	-	213,335	213,335	213,335	213,335
Capital assets, net	9,428,451	8,549,232	43,554,252	39,155,191	52,982,703	47,704,423
Total assets	16,337,709	15,774,775	64,443,156	60,910,983	80,780,865	76,685,758
Deferred outflows	1,311,084	495,917	1,481,747	574,104	2,792,831	1,070,021
<u>Liabilities</u>						
Long-term liabilities	5,598,429	4,587,099	17,656,737	14,471,300	23,255,166	19,058,399
Other liabilities	258,587	161,497	2,050,672	2,234,831	2,309,259	2,396,328
Total liabilities	5,857,016	4,748,596	19,707,409	16,706,131	25,564,425	21,454,727
Deferred inflows	681,803	664,208	75,753	54,411	757,556	718,619
<u>Net Position</u>						
Net investment						
in capital assets	8,682,247	7,892,500	31,573,506	28,878,408	40,255,753	36,770,908
Restricted	2,552,340	3,113,147	-	-	2,552,340	3,113,147
Unrestricted (deficit)	(124,613)	(147,759)	14,568,235	15,561,159	14,443,622	15,413,400
Total net position	\$ 11,109,974	\$ 10,857,888	\$ 46,141,741	\$ 44,439,567	\$ 57,251,715	\$ 55,297,455

During 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Unaudited

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

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

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

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

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

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's assets and deferred outflows exceeded liabilities and deferred inflows by \$57,251,715. At year-end, net position was \$11,109,974 and \$46,141,741 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets net represented 65.59% of total assets. Capital assets include land, artwork and historical treasures, construction in progress, land improvements, buildings, equipment, vehicles, and infrastructure. The net investment in capital assets at December 31, 2016, was \$8,682,247 and \$31,573,506 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2016, the City's governmental activities unrestricted net position was a deficit balance of \$124,613. This deficit is due to the implementation of GASB 68. A portion of the City's net position, \$2,552,340 represents resources that are subject to external restriction on how they may be used.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
Unaudited

The table below shows the changes in net position for years 2016 and 2015. The 2015 net position as been restated as described Note 3.

Change in Net Position

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-Type Activities	Restated 2015 Business-Type Activities	2016 Total	Restated 2015 Total
Revenues						
Program revenues:						
Charges for services	\$ 2,390,311	\$ 2,397,392	\$ 27,584,002	\$ 25,834,476	\$ 29,974,313	\$ 28,231,868
Operating grants and contributions	639,554	686,444	27,754	-	667,308	686,444
Capital grants and contributions	742,526	628,228	91,878	1,236,550	834,404	1,864,778
Total program revenues	<u>3,772,391</u>	<u>3,712,064</u>	<u>27,703,634</u>	<u>27,071,026</u>	<u>31,476,025</u>	<u>30,783,090</u>
General revenues:						
Property and other local taxes	1,498,794	1,462,603	-	-	1,498,794	1,462,603
Unrestricted grants and entitlements	219,945	249,479	-	-	219,945	249,479
Investment earnings	171,786	164,199	52	10	171,838	164,209
Miscellaneous	162,947	62,023	311,950	286,978	474,897	349,001
Total general revenues	<u>2,053,472</u>	<u>1,938,304</u>	<u>312,002</u>	<u>286,988</u>	<u>2,365,474</u>	<u>2,225,292</u>
Total revenues	<u>5,825,863</u>	<u>5,650,368</u>	<u>28,015,636</u>	<u>27,358,014</u>	<u>33,841,499</u>	<u>33,008,382</u>
Expenses:						
General government	1,460,590	1,299,983	-	-	1,460,590	1,299,983
Security of persons and property	2,645,768	2,205,901	-	-	2,645,768	2,205,901
Public health and welfare	318,280	297,184	-	-	318,280	297,184
Transportation	791,013	584,293	-	-	791,013	584,293
Community environment	158,616	269,385	-	-	158,616	269,385
Leisure time activities	180,921	200,912	-	-	180,921	200,912
Interest and fiscal charges	18,589	11,602	-	-	18,589	11,602
Water	-	-	2,653,591	2,599,602	2,653,591	2,599,602
Sewer	-	-	4,018,054	3,679,209	4,018,054	3,679,209
Electric	-	-	18,731,662	16,986,764	18,731,662	16,986,764
Other enterprise	-	-	910,155	906,859	910,155	906,859
Total expenses	<u>5,573,777</u>	<u>4,869,260</u>	<u>26,313,462</u>	<u>24,172,434</u>	<u>31,887,239</u>	<u>29,041,694</u>
Transfers	-	(164,699)	-	164,699	-	-
Change in net position	252,086	616,409	1,702,174	3,350,279	1,954,260	3,966,688
Net position at beginning of year (restated)	<u>10,857,888</u>	<u>10,241,479</u>	<u>44,439,567</u>	N/A	<u>55,297,455</u>	N/A
Net position at end of year	<u>\$ 11,109,974</u>	<u>\$ 10,857,888</u>	<u>\$ 46,141,741</u>	<u>\$ 44,439,567</u>	<u>\$ 57,251,715</u>	<u>\$ 55,297,455</u>

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**
Unaudited

Governmental Activities

Governmental activities net position increased \$252,086 in 2016.

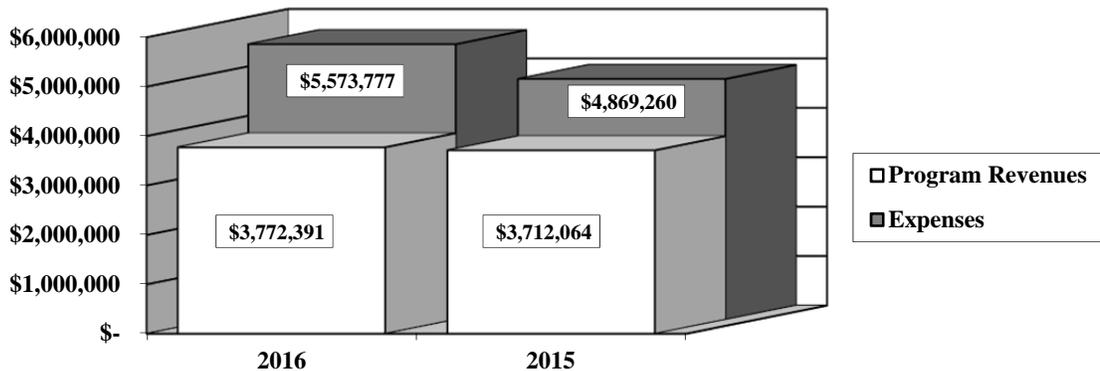
Security of persons and property, which primarily supports the operations of the police department accounted for \$2,645,768 of the total expenses of the City. These expenses were partially funded by \$80,217 in direct charges to users of the services and \$51,243 in operating grants and contributions. Transportation expenses totaled \$791,013. Transportation expenses were funded by \$1,279,249 in direct charges to users of the services, primarily related to right-of-ways, \$338,462 in operating grants and contributions and \$742,526 in capital grants and contributions.

The state and federal government contributed to the City a total of \$639,554 in operating grants and contributions.

General revenues totaled \$2,053,472 and amounted to 35.25% of total governmental revenues. These revenues primarily consist of property and other local tax revenue of \$1,498,794. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government funds, making up \$219,945.

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

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF JACKSON, OHIO

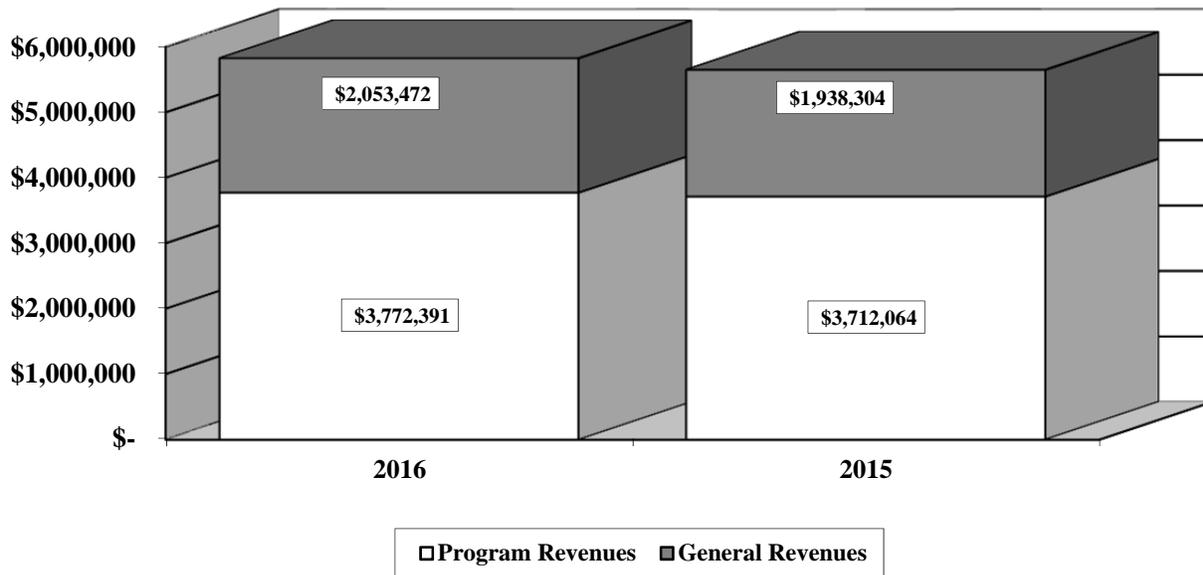
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
Unaudited

Governmental Activities

	Total Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2016</u>	Net Cost of Services <u>2015</u>
Program Expenses:				
General government	\$ 1,460,590	\$ 1,299,983	\$ 524,240	\$ 373,570
Security of persons and property	2,645,768	2,205,901	2,514,308	2,124,641
Public health and welfare	318,280	297,184	262,508	209,043
Transportation	791,013	584,293	(1,569,224)	(1,641,901)
Community environment	158,616	269,385	(36,736)	(47,377)
Leisure time activity	180,921	200,912	87,701	127,618
Interest and fiscal charges	<u>18,589</u>	<u>11,602</u>	<u>18,589</u>	<u>11,602</u>
Total Expenses	<u>\$ 5,573,777</u>	<u>\$ 4,869,260</u>	<u>\$ 1,801,386</u>	<u>\$ 1,157,196</u>

The dependence upon general revenues for governmental activities is apparent, with 32.32% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues



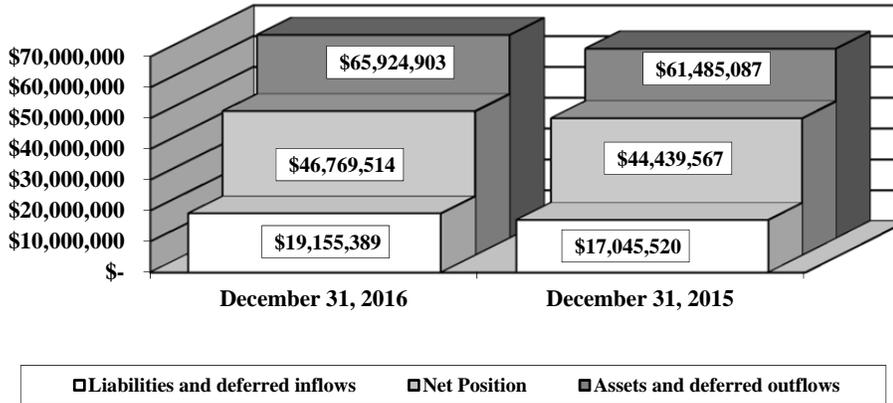
Business-type Activities

Business-type activities include the Water, Sewer, and Electric major enterprise funds and the Railroad and Garbage nonmajor enterprise funds. These programs had program revenues of \$27,703,634, general revenues of \$312,002 and expenses of \$26,313,462 for 2016. The graph below shows the business-type activities assets and deferred outflows, liabilities and deferred inflows and net position at year-end 2016 and 2015.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
Unaudited

Net Position in Business - Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$5,169,723 which is \$101,559 above last year's total of \$5,068,164. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2016 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/16</u>	Fund Balances <u>12/31/15</u>	<u>Change</u>
General	\$ 1,674,340	\$ 1,438,081	\$ 236,259
Other nonmajor governmental funds	<u>3,495,383</u>	<u>3,630,083</u>	<u>(134,700)</u>
Total	<u>\$ 5,169,723</u>	<u>\$ 5,068,164</u>	<u>\$ 101,559</u>

General Fund

The City's General Fund balance increase 16.43%, primarily as a result of transfers out decreasing and other revenue increasing. The table that follows assists in illustrating the revenues of the General Fund.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Unaudited

	<u>2016</u>	<u>2015</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 1,099,382	\$ 1,080,606	1.74 %
Charges for services	2,109,897	2,087,887	1.05 %
Licenses and permits	92,535	90,445	2.31 %
Fines and forfeitures	58,635	51,830	13.13 %
Investment income	171,786	164,199	4.62 %
Intergovernmental	183,806	202,204	(9.10) %
Other	<u>123,495</u>	<u>63,438</u>	94.67 %
 Total	 <u>\$ 3,839,536</u>	 <u>\$ 3,740,609</u>	 2.64 %

Tax revenue represents 28.63% of all General Fund revenue. The decrease in intergovernmental revenue is related to a decrease in estate tax revenue during the year. The increase in other revenues is due to an increase in insurance settlements and other miscellaneous receipts.

The table that follows assists in illustrating the expenditures of the General Fund.

	<u>2016</u>	<u>2015</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,163,455	\$ 1,228,531	(5.30) %
Security of persons and property	2,171,694	2,192,946	(0.97) %
Transportation	168,730	169,826	(0.65) %
Community environment	42,961	11,696	267.31 %
Leisure time activity	2,174	-	(100.00) %
Debt service	<u>2,294</u>	<u>2,294</u>	- %
 Total	 <u>\$ 3,551,308</u>	 <u>\$ 3,605,293</u>	 (1.50) %

Total expenditures decreased 1.5% from 2015. The increase in community environment is due to an increase in rehabilitation expenditures for the HOME program.

Budgeting Highlights

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. From time to time during the year, the fund's budget may be amended as needs or conditions change.

The City made several revisions to the original appropriations approved by City Council. Overall, these changes resulted in an increase from the original budget of \$61,262 excluding advances and transfers. The City's General Fund actual revenues and other financing sources were \$188,157 greater than the final budgeted revenues and expenditures and other financing uses were \$750,125 less than appropriations due to conservative spending.

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Unaudited

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities.

The Water Fund had operating revenues of \$2,429,003 and operating expenses of \$2,544,845 in 2016. The Water Fund also had non-operating expenses of \$98,839 and non-operating revenues of \$27,754. The net decrease in net position for the Water Fund was \$186,927 or 3.27%.

The Sewer Fund had operating revenues of \$4,001,564 and operating expenses of \$3,937,169 in 2016. The Sewer Fund also had net non-operating expenses of \$75,478, non-operating revenue of \$4,546, and capital contributions of \$91,878. The net increase in net position for the Sewer Fund was \$85,341 or 0.71%.

The Electric Fund had operating revenues of \$20,596,456 and operating expenses of \$18,655,865 in 2016. The Electric Fund also had non-operating revenues of \$845 and non-operating expenses of \$65,889. The net increase in net position for the Electric Fund was \$1,875,547 or 8.99%.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, the City had \$52,982,703 (net of accumulated depreciation) invested in land, art work and historical treasures, construction in progress, land improvements, buildings, equipment, vehicles, and infrastructure. Of this total, \$9,428,451 was reported in governmental activities and \$43,554,252 was reported in business-type activities.

The following table shows 2016 capital asset balances compared to 2015:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,409,650	\$ 1,409,650	\$ 3,122,332	\$ 3,122,332	\$ 4,531,982	\$ 4,531,982
Art work and historical treasures	291,000	291,000	-	-	291,000	291,000
Land improvements	165,492	176,028	16,928	17,779	182,420	193,807
Buildings	1,447,262	1,415,858	588,634	543,995	2,035,896	1,959,853
Equipment	293,214	314,485	614,736	691,605	907,950	1,006,090
Infrastructure	4,855,600	3,035,113	33,216,935	33,228,993	38,072,535	36,264,106
Vehicles	959,010	726,799	398,152	421,655	1,357,162	1,148,454
Construction in progress	<u>7,223</u>	<u>1,180,299</u>	<u>5,596,535</u>	<u>1,128,832</u>	<u>5,603,758</u>	<u>2,309,131</u>
Totals	<u>\$ 9,428,451</u>	<u>\$ 8,549,232</u>	<u>\$ 43,554,252</u>	<u>\$ 39,155,191</u>	<u>\$ 52,982,703</u>	<u>\$ 47,704,423</u>

The City's largest capital asset category is infrastructure which includes roads, water lines, and sewer lines. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 71.86% of the City's total capital assets. See Note 7 to the basic financial statements for additional capital asset detail.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
Unaudited

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2016 and 2015:

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Notes payable	\$ 118,795	\$ 130,332
Lease purchase agreements	482,825	526,400
Police and Fire Pension Liability	<u>29,145</u>	<u>30,168</u>
Total long-term obligations	<u>\$ 630,765</u>	<u>\$ 686,900</u>
	<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u>
Bonds payable	\$ 2,821,879	\$ 3,208,527
Notes payable	190,955	233,001
AMP-Ohio stranded costs	637,805	1,136,996
Lease Purchase Agreement	111,659	-
OPWC loan payable	627,773	284,978
OWDA loans	<u>8,958,991</u>	<u>6,670,465</u>
Total long-term obligations	<u>\$ 13,349,062</u>	<u>\$ 11,533,967</u>

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

Economic Conditions and Outlook

The City's administration considers the impact of various economic factors when establishing the 2017 budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have yielded significant influence on the objectives established in the 2017 budget. The primary objectives include continued improvement to constituent service delivery as well as long-term fiscal stability.

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue—local property taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to pursue economic development and job creation; maintain the community's reputation for high public safety standards; and adoption of a budget designed to promote long-term fiscal stability. Furthermore, the City's investment earnings, which were once a significant source of revenue for the City have drastically decreased over the past several years. With no expectation of interest rates increasing substantially in the near future, this will continue to remain an issue for the City.

The average unemployment rate for Jackson County in 2016 was 7.30% compared to the 4.93% State of Ohio average. The City Auditor anticipates the 2016 rate to continue through 2016 with the potential for it to increase during the year. In order to meet these challenges, further cost containment and/or revenue enhancement actions will be essential. With the continuation of conservative budgeting practices and constantly looking for ways to generate additional revenue, the City's financial position is anticipated to remain stable in future years.

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Unaudited

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. If you have questions about this report, please contact the City of Jackson's Auditor's Office by calling (740) 286-2423 or by writing the City Auditor at 145 Broadway Street, Jackson, Ohio 45640-1656.

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**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 4,842,759	\$ 15,335,076	\$ 20,177,835
Cash with escrow agents.	-	140,851	140,851
Receivables:			
Real and other taxes	749,775	-	749,775
Accounts.	114,270	2,733,629	2,847,899
Accrued interest	8,433	-	8,433
Due from other governments.	474,155	900,372	1,374,527
Loans receivable.	4,354	582,498	586,852
Materials and supplies inventory.	66,306	931,797	998,103
Prepayments	122,324	117,464	239,788
Internal balance	524,900	(524,900)	-
Net pension asset.	1,982	3,724	5,706
Restricted assets:			
Customer deposits.	-	455,058	455,058
Investment in joint venture.	-	213,335	213,335
Capital assets:			
Land, artwork and construction in progress.	1,707,873	8,718,867	10,426,740
Depreciable capital assets, net.	7,720,578	34,835,385	42,555,963
Total capital assets, net.	9,428,451	43,554,252	52,982,703
Total assets	16,337,709	64,443,156	80,780,865
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	-	108,771	108,771
Pension - OPERS	730,955	1,372,976	2,103,931
Pension - OP&F	580,129	-	580,129
Total deferred outflows of resources	1,311,084	1,481,747	2,792,831
Liabilities:			
Accounts payable.	40,717	1,362,884	1,403,601
Contracts payable.	144,584	117,692	262,276
Accrued wages and benefits payable	39,076	42,762	81,838
Due to other governments	29,436	30,009	59,445
Accrued interest payable	4,774	10,915	15,689
Claims payable.	-	31,352	31,352
Customer deposits payable.	-	455,058	455,058
Long-term liabilities:			
Due within one year	244,139	1,730,926	1,975,065
Net pension liability	4,297,732	3,547,024	7,844,756
Due in more than one year.	1,056,558	12,378,787	13,435,345
Total liabilities	5,857,016	19,707,409	25,564,425
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	626,500	-	626,500
Pension - OPERS.	40,329	75,753	116,082
Pension - OP&F.	14,974	-	14,974
Total deferred inflows of resources	681,803	75,753	757,556
Net position:			
Net investment in capital assets.	8,682,247	31,573,506	40,255,753
Restricted for:			
Community development.	641,105	-	641,105
Youth arts program.	512,377	-	512,377
Cemetery.	468,561	-	468,561
Transportation projects	180,605	-	180,605
Public safety.	241,393	-	241,393
Capital projects.	2,205	-	2,205
Cemetery endowment:			
Nonexpendable.	100,000	-	100,000
Expendable.	294,499	-	294,499
Other purposes.	111,595	-	111,595
Unrestricted (deficit)	(124,613)	14,568,235	14,443,622
Total net position	\$ 11,109,974	\$ 46,141,741	\$ 57,251,715

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government.	\$ 1,460,590	\$ 931,774	\$ 4,576	\$ -
Security of persons and property	2,645,768	80,217	51,243	-
Public health and welfare	318,280	43,174	12,598	-
Transportation.	791,013	1,279,249	338,462	742,526
Community environment	158,616	5,119	190,233	-
Leisure time activity.	180,921	50,778	42,442	-
Interest and fiscal charges.	18,589	-	-	-
Total governmental activities	<u>5,573,777</u>	<u>2,390,311</u>	<u>639,554</u>	<u>742,526</u>
Business-type activities:				
Water.	2,653,591	2,411,870	27,754	-
Sewer.	4,018,054	4,001,544	-	91,878
Electric.	18,731,662	20,326,892	-	-
Other business-type activities:				
Garbage.	767,133	843,696	-	-
Railroad.	143,022	-	-	-
Total business-type activities	<u>26,313,462</u>	<u>27,584,002</u>	<u>27,754</u>	<u>91,878</u>
Total primary government	<u>\$ 31,887,239</u>	<u>\$ 29,974,313</u>	<u>\$ 667,308</u>	<u>\$ 834,404</u>

General revenues:
Property taxes levied for:
 General purposes
 Cemetery.
 Fire Protection.
 Other purposes.
Grants and entitlements not restricted
 to specific programs
Investment earnings
Miscellaneous
Total general revenues
Change in net position
Net position at beginning of year, restated . .
Net position at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (524,240)	\$ -	\$ (524,240)
(2,514,308)	-	(2,514,308)
(262,508)	-	(262,508)
1,569,224	-	1,569,224
36,736	-	36,736
(87,701)	-	(87,701)
(18,589)	-	(18,589)
<u>(1,801,386)</u>	<u>-</u>	<u>(1,801,386)</u>
-	(213,967)	(213,967)
-	75,368	75,368
-	1,595,230	1,595,230
-	76,563	76,563
-	(143,022)	(143,022)
-	<u>1,390,172</u>	<u>1,390,172</u>
<u>(1,801,386)</u>	<u>1,390,172</u>	<u>(411,214)</u>
1,107,063	-	1,107,063
170,138	-	170,138
161,457	-	161,457
60,136	-	60,136
219,945	-	219,945
171,786	52	171,838
<u>162,947</u>	<u>311,950</u>	<u>474,897</u>
<u>2,053,472</u>	<u>312,002</u>	<u>2,365,474</u>
252,086	1,702,174	1,954,260
<u>10,857,888</u>	<u>44,439,567</u>	<u>55,297,455</u>
<u>\$ 11,109,974</u>	<u>\$ 46,141,741</u>	<u>\$ 57,251,715</u>

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 1,503,073	\$ 3,339,686	\$ 4,842,759
Receivables:			
Real and other taxes	399,672	350,103	749,775
Accounts	74,047	40,223	114,270
Interfund loans	53,805	-	53,805
Accrued interest	5,819	2,614	8,433
Due from other governments	86,589	387,566	474,155
Loans receivable	4,354	-	4,354
Materials and supplies inventory	2,801	63,505	66,306
Prepayments	95,078	27,246	122,324
Total assets	<u>\$ 2,225,238</u>	<u>\$ 4,210,943</u>	<u>\$ 6,436,181</u>
Liabilities:			
Accounts payable	\$ 39,482	\$ 1,235	\$ 40,717
Contracts payable	-	144,584	144,584
Accrued wages and benefits payable	31,649	7,427	39,076
Interfund loans payable	-	53,805	53,805
Due to other governments	24,446	4,990	29,436
Total liabilities	<u>95,577</u>	<u>212,041</u>	<u>307,618</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year . . .	330,500	296,000	626,500
Delinquent property tax revenue not available . .	60,409	54,103	114,512
Intergovernmental revenue not available	64,412	153,416	217,828
Total deferred inflows of resources	<u>455,321</u>	<u>503,519</u>	<u>958,840</u>
Fund balances:			
Nonspendable	141,963	190,751	332,714
Restricted	-	2,696,392	2,696,392
Committed	-	658,602	658,602
Assigned	626,454	-	626,454
Unassigned	905,923	(50,362)	855,561
Total fund balances	<u>1,674,340</u>	<u>3,495,383</u>	<u>5,169,723</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,225,238</u>	<u>\$ 4,210,943</u>	<u>\$ 6,436,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Total governmental fund balances	\$	5,169,723
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
The net pension asset is not available to pay for current period expenditures; therefore, the asset is not reported in the governmental funds.		1,982
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,428,451
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Real and other taxes receivable	\$ 114,512	
Intergovernmental receivable	217,828	
Total	332,340	332,340
An internal service fund is used by management to charge the costs of insurance to individual funds. A portion of the internal service fund is owed to governmental activities on the statement of net position.		524,900
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(4,774)
The net pension asset and net pension liability are not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the asset, liability and related deferred inflows/outflows are not reported in governmental funds.		
Deferred outflows	1,311,084	
Deferred inflows	(55,303)	
Net Pension Liability	(4,297,732)	
Total	(3,041,951)	(3,041,951)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(669,932)	
Police and fire pension liability	(29,145)	
Notes payable	(601,620)	
Total	(1,300,697)	(1,300,697)
Net position of governmental activities	\$	11,109,974

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Real and other taxes	\$ 1,099,382	\$ 386,841	\$ 1,486,223
Intergovernmental	183,806	1,865,231	2,049,037
Charges for services	2,109,897	102,021	2,211,918
Fines and forfeitures	58,635	2,932	61,567
Licenses and permits	92,535	-	92,535
Investment income	171,786	32,577	204,363
Rental income	1,645	-	1,645
Contributions and donations	-	27,811	27,811
Other	121,850	24,034	145,884
Total revenues	<u>3,839,536</u>	<u>2,441,447</u>	<u>6,280,983</u>
Expenditures:			
Current:			
General government	1,163,455	-	1,163,455
Security of persons and property	2,171,694	143,739	2,315,433
Public health and welfare	-	304,823	304,823
Transportation	168,730	530,371	699,101
Community environment	42,961	115,655	158,616
Leisure time activity	2,174	248,945	251,119
Capital outlay	-	1,252,796	1,252,796
Debt service:			
Principal retirement	1,023	55,112	56,135
Interest and fiscal charges	1,271	17,772	19,043
Total expenditures	<u>3,551,308</u>	<u>2,669,213</u>	<u>6,220,521</u>
Excess (deficiency) of revenues over (under) expenditures	<u>288,228</u>	<u>(227,766)</u>	<u>60,462</u>
Other financing sources (uses):			
Sale of capital assets	30,176	10,921	41,097
Transfers in	-	85,561	85,561
Transfers (out)	(82,145)	(3,416)	(85,561)
Total other financing sources (uses)	<u>(51,969)</u>	<u>93,066</u>	<u>41,097</u>
Net change in fund balances	236,259	(134,700)	101,559
Fund balances at beginning of year..	<u>1,438,081</u>	<u>3,630,083</u>	<u>5,068,164</u>
Fund balances at end of year	<u>\$ 1,674,340</u>	<u>\$ 3,495,383</u>	<u>\$ 5,169,723</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Net change in fund balances - total governmental funds	\$	101,559
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 exceeds depreciation expense in the current period.		
Capital asset additions	\$ 1,378,588	
Current year depreciation	<u>(452,482)</u>	
Total		926,106
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to increase net position.		
		(46,887)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Real and other taxes	12,571	
Intergovernmental revenues	<u>(508,788)</u>	
Total		(496,217)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		56,135
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		
		454
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(13,810)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		334,482
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(587,720)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. A portion of the net revenue of the internal service fund is allocated among the governmental activities.		
		<u>(22,016)</u>
Change in net position of governmental activities	\$	<u>252,086</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Real and other taxes	\$ 1,048,565	\$ 1,033,541	\$ 1,097,551	\$ 64,010
Intergovernmental	194,250	187,750	182,025	(5,725)
Charges for services	2,094,031	2,094,031	2,109,897	15,866
Fines and forfeitures	46,800	46,640	58,635	11,995
Licenses and permits	90,850	89,801	92,535	2,734
Special assessments	160,000	160,000	163,140	3,140
Rental income	1,500	1,500	1,645	145
Other	35,000	33,627	99,443	65,816
Total revenues	<u>3,670,996</u>	<u>3,646,890</u>	<u>3,804,871</u>	<u>157,981</u>
Expenditures:				
Current:				
General government	1,551,462	1,570,402	1,233,504	336,898
Security of persons and property	2,298,200	2,338,558	2,253,896	84,662
Transportation	195,050	197,014	171,560	25,454
Debt service:				
Principal retirement	1,100	1,100	1,023	77
Interest and fiscal charges	1,450	1,450	1,271	179
Total expenditures	<u>4,047,262</u>	<u>4,108,524</u>	<u>3,661,254</u>	<u>447,270</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(376,266)</u>	<u>(461,634)</u>	<u>143,617</u>	<u>605,251</u>
Other financing sources (uses):				
Sale of capital assets	-	-	30,176	30,176
Advances out	-	(53,805)	(53,805)	-
Transfers out	(385,000)	(385,000)	(82,145)	302,855
Total other financing sources (uses)	<u>(385,000)</u>	<u>(438,805)</u>	<u>(105,774)</u>	<u>333,031</u>
Net change in fund balances	(761,266)	(900,439)	37,843	938,282
Fund balances at beginning of year	1,321,868	1,321,868	1,321,868	-
Prior year encumbrances appropriated	13,251	13,251	13,251	-
Fund balance at end of year	<u>\$ 573,853</u>	<u>\$ 434,680</u>	<u>\$ 1,372,962</u>	<u>\$ 938,282</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds					Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents . . .	\$ 1,741,891	\$ 3,439,363	\$ 8,539,738	\$ 403,520	\$ 14,124,512	\$ 1,210,564
Cash with escrow agents	-	-	-	140,851	140,851	-
Receivables:						
Accounts	251,892	454,714	1,949,165	77,858	2,733,629	-
Due from other governments	-	900,372	-	-	900,372	-
Loans receivable	-	582,498	-	-	582,498	-
Materials and supplies inventory	81,202	45,491	800,981	4,123	931,797	-
Prepayments	30,638	37,280	36,603	12,943	117,464	-
Restricted assets:						
Customer deposits	71,181	67,691	295,681	20,505	455,058	-
Total restricted assets	71,181	67,691	295,681	20,505	455,058	-
Total current assets	2,176,804	5,527,409	11,622,168	659,800	19,986,181	1,210,564
Noncurrent assets:						
Investment in joint venture	-	-	213,335	-	213,335	-
Net pension asset	953	1,188	1,222	361	3,724	-
Capital assets:						
Land and construction in progress	1,238,827	2,785,566	3,049,839	1,644,635	8,718,867	-
Depreciable capital assets, net	4,758,965	13,771,775	13,142,775	3,161,870	34,835,385	-
Total capital assets, net	5,997,792	16,557,341	16,192,614	4,806,505	43,554,252	-
Total noncurrent assets	5,998,745	16,558,529	16,407,171	4,806,866	43,771,311	-
Total assets	8,175,549	22,085,938	28,029,339	5,466,666	63,757,492	1,210,564
Deferred outflows of resources:						
Unamortized deferred charges on debt refunding	25,754	-	83,017	-	108,771	-
Pension - OPERS	351,246	438,127	450,615	132,988	1,372,976	-
Total deferred outflows of resources	377,000	438,127	533,632	132,988	1,481,747	-
Total assets and deferred outflows of resources	8,552,549	22,524,065	28,562,971	5,599,654	65,239,239	1,210,564
Liabilities:						
Current liabilities:						
Accounts payable	22,121	15,929	1,310,334	14,500	1,362,884	-
Contracts payable	-	94,808	22,884	-	117,692	-
Accrued wages and benefits payable	11,773	13,497	13,720	3,772	42,762	-
Due to other governments	7,979	9,552	9,595	2,883	30,009	-
Accrued interest payable	2,830	-	8,085	-	10,915	-
Compensated absences payable - current	28,351	70,828	67,397	5,919	172,495	-
OWDA loans payable	69,014	484,262	-	-	553,276	-
OPWC loans payable	-	20,933	-	-	20,933	-
Notes payable	13,333	28,713	-	-	42,046	-
AMP-Ohio stranded cost payable - current	-	-	500,000	-	500,000	-
Claims payable	-	-	-	-	-	31,352
Capital lease obligations payable	-	-	-	27,176	27,176	-
Payables from restricted assets:						
Revenue bonds payable	215,000	-	200,000	-	415,000	-
Customer deposits payable	71,181	67,691	295,681	20,505	455,058	-
Total current liabilities	441,582	806,213	2,427,696	74,755	3,750,246	31,352
Long-term liabilities:						
Compensated absences payable	97,069	184,809	288,928	17,350	588,156	-
Revenue bonds payable	626,879	-	1,780,000	-	2,406,879	-
OWDA loans payable	862,685	7,543,030	-	-	8,405,715	-
OPWC loans payable	-	606,840	-	-	606,840	-
Notes payable	65,893	83,016	-	-	148,909	-
Capital lease payable	-	-	-	84,483	84,483	-
AMP-Ohio stranded cost payable	-	-	137,805	-	137,805	-
Net pension liability	907,429	1,131,884	1,164,147	343,564	3,547,024	-
Total long-term liabilities	2,559,955	9,549,579	3,370,880	445,397	15,925,811	-
Total liabilities	3,001,537	10,355,792	5,798,576	520,152	19,676,057	31,352
Deferred inflows of resources:						
Pension - OPERS	19,380	24,173	24,862	7,338	75,753	-
Total deferred inflows of resources	19,380	24,173	24,862	7,338	75,753	-
Total liabilities and deferred inflows of resources	3,020,917	10,379,965	5,823,438	527,490	19,751,810	31,352
Net position:						
Net investment in capital assets	4,170,742	8,323,512	14,272,747	4,806,505	31,573,506	-
Unrestricted	1,360,890	3,820,588	8,466,786	265,659	13,913,923	1,179,212
Total net position	\$ 5,531,632	\$ 12,144,100	\$ 22,739,533	\$ 5,072,164	45,487,429	\$ 1,179,212

Some amounts reported for business-type activities in the statement of net position are different because internal service fund assets and liabilities are included with business-type activities:

Net position of the internal service amount	1,179,212
Amount owed to governmental activities	(524,900)
Net position of business-type activities	<u>\$ 46,141,741</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds					Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Operating revenues:						
Charges for services	\$ 2,411,870	\$ 4,001,544	\$ 20,326,892	\$ 843,696	\$ 27,584,002	\$ -
Other operating revenues	17,133	20	269,564	24,388	311,105	251,209
Total operating revenues.	<u>2,429,003</u>	<u>4,001,564</u>	<u>20,596,456</u>	<u>868,084</u>	<u>27,895,107</u>	<u>251,209</u>
Operating expenses:						
Personal services	718,244	880,752	887,580	260,129	2,746,705	-
Fringe benefits.	402,550	464,611	501,488	161,106	1,529,755	306,250
Contract services.	896,269	730,183	15,349,380	202,746	17,178,578	-
Materials and supplies.	112,516	296,846	219,681	29,893	658,936	-
Utilities	105,374	393,993	9,787	3,975	513,129	-
Depreciation.	287,267	744,213	393,100	179,934	1,604,514	-
Other	22,625	426,571	1,294,849	69,069	1,813,114	-
Total operating expenses.	<u>2,544,845</u>	<u>3,937,169</u>	<u>18,655,865</u>	<u>906,852</u>	<u>26,044,731</u>	<u>306,250</u>
Operating income (loss)	<u>(115,842)</u>	<u>64,395</u>	<u>1,940,591</u>	<u>(38,768)</u>	<u>1,850,376</u>	<u>(55,041)</u>
Nonoperating revenues (expenses):						
Interest and fiscal charges	(42,693)	(75,478)	(65,889)	-	(184,060)	-
Gain (loss) on sale of capital assets.	(56,146)	4,500	845	-	(50,801)	-
Interest income.	-	46	-	6	52	-
Intergovernmental	27,754	-	-	-	27,754	-
Total nonoperating expenses.	<u>(71,085)</u>	<u>(70,932)</u>	<u>(65,044)</u>	<u>6</u>	<u>(207,055)</u>	<u>-</u>
Income (loss) before contributions.	(186,927)	(6,537)	1,875,547	(38,762)	1,643,321	(55,041)
Capital contributions.	-	91,878	-	-	91,878	-
Change in net position	(186,927)	85,341	1,875,547	(38,762)	1,735,199	(55,041)
Net position at beginning of year, restated	<u>5,718,559</u>	<u>12,058,759</u>	<u>20,863,986</u>	<u>5,110,926</u>		<u>1,234,253</u>
Net position at end of year	<u>\$ 5,531,632</u>	<u>\$ 12,144,100</u>	<u>\$ 22,739,533</u>	<u>\$ 5,072,164</u>		<u>\$ 1,179,212</u>
Some amounts reported for business-type activities in the statement of net position are different because the net revenue of the internal service fund is reported with business-type activities.					(33,025)	
Change in net position of business-type activities.					<u>\$ 1,702,174</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds					Internal Service Fund
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities:						
Cash received from customers	\$ 2,482,119	\$ 3,985,952	\$ 19,941,223	\$ 828,865	\$ 27,238,159	\$ -
Cash received from other operations	17,133	20	144,987	21,770	183,910	251,209
Cash payments for employee services and benefits	(1,084,518)	(1,320,903)	(1,390,055)	(426,348)	(4,221,824)	-
Cash payments for goods and services	(1,175,806)	(1,421,807)	(15,371,330)	(239,126)	(18,208,069)	-
Cash payments for claims	-	-	-	-	-	(303,745)
Cash payments for other expenses	(22,625)	(426,571)	(1,294,849)	(69,069)	(1,813,114)	-
Net cash provided by operating activities	216,303	816,691	2,029,976	116,092	3,179,062	(52,536)
Cash flows from noncapital financing activities:						
Cash received from grants and subsidies	27,754	-	-	-	27,754	-
Net cash used in noncapital financing activities	27,754	-	-	-	27,754	-
Cash flows from capital and related financing activities:						
Capital contributions	-	3,224,546	-	140,834	3,365,380	-
Sale of capital assets	-	4,850	1,300	-	6,150	-
Acquisition of capital assets	(136,722)	(3,326,316)	(2,961,202)	-	(6,424,240)	-
Payment for stranded costs	-	-	(500,000)	-	(500,000)	-
Principal retirement on OWDA loans	(69,015)	(480,313)	-	-	(549,328)	-
Principal retirement on notes	(13,333)	(28,713)	-	-	(42,046)	-
Principal retirement on general obligation bonds	(200,000)	-	-	-	(200,000)	-
Principal retirement on revenue bonds	-	-	(185,000)	-	(185,000)	-
Principal retirement on capital leases	-	-	-	(29,175)	(29,175)	-
Interest and fiscal charges	(41,963)	(75,478)	(53,043)	-	(170,484)	-
Net cash provided by (used in) capital and related financing activities	(461,033)	(681,424)	(3,697,945)	111,659	(4,728,743)	-
Cash flows from investing activities:						
Interest received	-	46	-	6	52	-
Net cash provided by investing activities	-	46	-	6	52	-
Net increase (decrease) in cash and cash equivalents	(216,976)	135,313	(1,667,969)	227,757	(1,521,875)	(52,536)
Cash and cash equivalents at beginning of year	2,030,048	3,371,741	10,503,388	337,119	16,242,296	1,263,100
Cash and cash equivalents at end of year	\$ 1,813,072	\$ 3,507,054	\$ 8,835,419	\$ 564,876	\$ 14,720,421	\$ 1,210,564

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**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>					<u>Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ (115,842)	\$ 64,395	\$ 1,940,591	\$ (38,768)	\$ 1,850,376	\$ (55,041)
Adjustments:						
Depreciation	287,267	744,213	393,100	179,934	1,604,514	-
Changes in assets and liabilities:						
Decrease (increase) in materials and supplies inventory.	(49,836)	15,888	(50,994)	(444)	(85,386)	-
Increase in prepayments	(30,638)	(37,280)	(36,603)	(12,943)	(117,464)	-
Decrease (increase) in accounts receivable	71,373	(14,380)	(474,110)	(16,880)	(433,997)	-
Increase in net pension asset	(197)	(214)	(215)	(53)	(679)	-
Increase in deferred outflows - pension	(238,428)	(292,776)	(300,366)	(87,040)	(918,610)	-
Increase (decrease) in contracts payable	-	55,518	(23,724)	-	31,794	-
Increase (decrease) in accounts payable	(4,226)	(62,252)	252,042	238	185,802	-
Decrease in accrued wages and benefits	(8,283)	(8,026)	(5,554)	(2,808)	(24,671)	-
Decrease in intergovernmental payable	(3,259)	(5,862)	(5,907)	(1,664)	(16,692)	-
Increase (decrease) in compensated absences payable	7,754	7,934	(15,563)	758	883	-
Increase (decrease) in customer deposits payable	(1,124)	(1,212)	724	(569)	(2,181)	-
Increase deferred inflows - pension	5,871	6,767	6,869	1,835	21,342	-
Increase in net pension liability	295,871	343,978	349,686	94,496	1,084,031	-
Decrease in claims payable	-	-	-	-	-	2,505
Net cash provided by operating activities	<u>\$ 216,303</u>	<u>\$ 816,691</u>	<u>\$ 2,029,976</u>	<u>\$ 116,092</u>	<u>\$ 3,179,062</u>	<u>\$ (52,536)</u>

Non-cash transactions

During 2015, the Water, Sewer and Electric funds purchased \$8,069, \$254,433, and \$233,404, respectively in capital assets on account. During 2016, the Water, Sewer and Electric funds purchased \$14,500, \$94,808, and \$22,884, respectively in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2016

	<u>Agency</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	<u>\$ 14,705</u>
Total assets	<u><u>\$ 14,705</u></u>
Liabilities:	
Due to others.	<u>\$ 14,705</u>
Total liabilities	<u><u>\$ 14,705</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - REPORTING ENTITY

The City of Jackson (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The City is operated under a statutory form of government and is a municipal corporation under the laws of the State of Ohio. The City operates under a Mayor/Council form of government. The City serves as the County Seat.

The Mayor, Auditor, and Treasurer, all with four year terms, and an eight member Council, plus a Council President, with two year terms, are elected. Department directors and public members of various boards and commissions are appointed by the Mayor.

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

The primary government consists of all funds and departments that are not legally separate from the City. Services provided by the primary government include police and fire protection, cemetery services, street maintenance and repairs, community and economic development, parks and recreation, and water, sewer, garbage, and electrical services. The City also maintains a rail spur. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the City Mayor and City Auditor through administrative and managerial requirements and procedures, and all are included as part of the reporting entity.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. No potential component units met these criteria.

The City's Electric Utility Enterprise Fund has entered into an ongoing joint venture agreement called the Ohio Municipal Electric Generation Agency Joint Venture (OMEGA JV5), with 41 other Ohio municipalities for the construction, installation, and operation of a 42 megawatt hydroelectric generator and related facilities at the Belleville locks and dam on the Ohio River. Additional information concerning this joint venture is presented in Note 16.

The City is also associated with a purchasing pool, the Ohio Rural Water Association (ORWA) Workers' Compensation Group Rating Program.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited expectations. 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 - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

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

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

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City reports the following proprietary funds:

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

Water Fund -To account for water services provided to individuals and commercial users. The costs of providing these services are financed primarily through user charges.

Sewer Fund -To account for sanitary sewer services provided to individuals and commercial users. The costs of providing these services are financed primarily through user charges.

Electric Fund -To account for electric services provided to individuals and commercial users. The costs of providing these services are financed primarily through user charges.

The other enterprise funds of the City account for other fee-based services provided by the City and grants, including garbage pickup and railroad activities.

Internal Service Fund - Internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service fund is used to account for the reimbursement to employees for deductibles on their health insurance.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

The City's fiduciary funds are classified as agency funds. The agency funds account for insurance company proceeds to pay for the removal of unsafe structures due to fire and refundable bonds for street excavation.

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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

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

D. Basis of Accounting

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

The non-exchange transactions, in which the City receives value without directly giving equal value in return, includes property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the year in which the taxes are levied. Revenues from grants and entitlements are recognized in the year eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements in which the resources are provided to the City on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue resources are considered to be both measurable and available at year end: interest, federal and state grants, state-levied locally shared taxes (including motor vehicle registration fees and gasoline taxes), and fees and rentals.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, see Note 8 for deferred outflows of resources related the City's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the City, see Note 8 for deferred inflows of resources related to the City's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

E. Budgetary Process

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates.

The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations resolution is the City Council's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level of control selected by the City Council. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council.

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

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During 2016, the City invested in STAR Ohio and non-negotiable certificates of deposit. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

Provisions of the Ohio Revised Code restrict investment procedures. During 2016, interest was distributed to the general fund, certain special revenue funds, capital projects funds, and the permanent fund. Interest revenue credited to the general fund during 2016 amounted to \$171,786, of which \$157,991 was assigned from other City funds.

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

G. Receivables and Payables

Receivables and payables to be recorded on the City's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and, in the case of receivables, collectability.

H. Inventory of Supplies

Inventories represent supplies held for consumption, are presented at cost on a first-in, first-out basis and are expended/expensed when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

J. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Restricted assets of the City include cash held for customer deposits.

K. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

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

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. The City’s capitalization threshold is \$5,000.

All reported capital assets are depreciated except for land, artwork and historical treasures and construction in progress. Improvements are depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City’s historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	25-50 years	25-50 years
Buildings	25-50 years	25-50 years
Equipment	5-20 years	5-20 years
Infrastructure	25-60 years	25-60 years
Vehicles	5-12 years	5-12 years

The City’s infrastructure consists of streets, curbs and gutters, traffic lights, water, sewer, and storm water lines and only includes infrastructure acquired after December 31, 1980.

L. Interfund Balances

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

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at year end, taking into consideration any limits specified in the City’s termination policy.

The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The City records a liability for accumulated unused sick leave for employees after five years of service.

N. Accrued Liabilities and Long-Term Obligations

The City reports all payables, accrued liabilities, and long-term obligations in the government-wide financial statements and it reports all payables, accrued liabilities, and long-term obligations payable from proprietary funds in the proprietary fund financial statements.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and special termination benefits that are paid from governmental funds are reported as a liability on the fund financial statements only to the extent that they are due for payment during the current year. The City recognizes long-term notes as a liability in the governmental fund financial statements when due.

O. Bond Premium/Discount and Accounting Loss

Bond premiums/discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt reported in the government-wide financial statements and enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resource or a deferred inflow of resources.

P. Fund Balance

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

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

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

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

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

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

Q. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the constitutional provisions or through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations or other governments. The amount restricted for other purposes includes the amounts restricted for the Lillian Jones Museum, continuing professional development, FEMA grants, flood mitigation and the visitor's center.

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

R. Internal Activity

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser fund. Flows of cash or goods from one fund to another without a requirement for repayment should be reported as internal 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 fund financial statements.

S. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

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

T. Operating Revenues and Expenses

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, sewer, electric, garbage, and railroad utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting the definition are reported as nonoperating.

U. 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 Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2016.

V. Pensions

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

T. Fair Value Measurements

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2016, the City has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City incorporated the corresponding GASB 72 guidance into its financial statements; however, there was no effect on beginning net position/fund balance.

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the City.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into its 2016 financial statements; however, there was no effect on beginning net position/fund balance.

B. Deficit Fund Balances

Fund balances at December 31, 2016 included the following individual fund deficits:

<u>Nonmajor funds:</u>	<u>Deficit</u>
FEMA Fire Gear	\$ 50,362

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Restatement of Net Assets / Fund Balances

A net position and fund balance restatement is required in order to restate the beginning balance of OPWC loan payable. The governmental activities, business-type activities and fund balances at January 1, 2016 have been restated as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position as previously reported	\$ 10,857,888	\$ 44,724,545	\$ 55,582,433
OPWC loan payable	-	(284,978)	(284,978)
Restated net position at January 1, 2016	<u>\$ 10,857,888</u>	<u>\$ 44,439,567</u>	<u>\$ 55,297,455</u>

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Fund balance as previously reported	\$ 5,718,559	\$ 12,343,737	\$ 20,863,986	\$ 5,110,926	\$ 44,037,208
OPWC loan payable	-	(284,978)	-	-	(284,978)
Restated net position at January 1, 2016	<u>\$ 5,718,559</u>	<u>\$ 12,058,759</u>	<u>\$ 20,863,986</u>	<u>\$ 5,110,926</u>	<u>\$ 43,752,230</u>

GASB 34 Adjustments:

Internal service fund balance	1,234,253
Amount owed to governmental activities	<u>(546,916)</u>
Business-type Activities	
Net position at January 1, 2016	<u>\$ 44,439,567</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

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

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio); and,
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year end, the City had \$1,750 in undeposited cash on hand which is included on the financial statements of the City as part of “cash and cash equivalents”.

B. Deposits with Financial Institutions

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the City's deposits was \$13,069,972 and the bank balance was \$13,489,452. Of the bank balance \$4,442,735 was covered by Federal depository insurance and \$9,046,717 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one- hundred-five percent of the deposits being secured.

C. Cash with Escrow Agent

The City entered into a lease purchase agreement for the purchase of a garbage truck. The proceeds of this agreement are being held in an escrow account. The City had \$140,851 held with escrow agent at fiscal year-end.

D. Investments

As of December 31, 2016, the City had the following investment and maturity:

Measurement/ Investment type	Measurement <u>Amount</u>	6 months or <u>less</u>
Amortized cost:		
STAR Ohio	\$ <u>7,575,876</u>	\$ <u>7,575,876</u>

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City’s investment policy limits investment portfolio maturities to five years or less.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City’s investment policy does not specifically address credit risk beyond requiring the City to invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City’s investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at June 30, 2016:

<u>Measurement/ Investment type</u>	<u>Measurement Amount</u>	<u>% of Total</u>
Amortized cost:		
STAR Ohio	<u>\$ 7,575,876</u>	<u>100.00</u>

E. Reconciliation of Cash to the Statement of Net Position

The following is a reconciliation of cash as reported in the note above to cash as reported on the statement of net position as of December 31, 2016:

<u>Cash per note</u>	
Carrying amount of deposits	\$ 13,069,972
Investments	7,575,876
Cash on hand	1,750
Cash with fiscal agent	<u>140,851</u>
Total	<u>\$ 20,788,449</u>
 <u>Cash per statement of net position</u>	
Governmental activities	\$ 4,842,759
Business type activities	15,930,985
Agency funds	14,705
Total	<u>\$ 20,788,449</u>

NOTE 5 - PROPERTY TAXES

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

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

NOTE 5 - PROPERTY TAXES - (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Auditor collects property taxes on behalf of all taxing districts in the County, including the City of Jackson. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2016 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes has been offset by deferred inflows of resources since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2016 was \$6.70 per \$1,000 of assessed value. The assessed values of real and public utility property for tax year 2016 are as follows:

Real property	\$ 117,263,340
Public utility real and personal property	3,452,240
Total assessed value	<u>\$ 120,715,580</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2016, consisted primarily of taxes, intergovernmental receivables arising from grants, loans, entitlements and shared revenues, interest on investments, and utility accounts. All intergovernmental receivables have been classified as “due from other governments” on the basic financial statements.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$114,512. The financial statements reflect loans receivable of \$4,354. This amount is owed to the City for Federal Community Development Block Grant monies loaned to an individual for home improvements. The loan is interest-free and is to be repaid over a period of thirty years.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 6 – RECEIVABLES (Continued)

A summary of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Community House Improvement Projects	\$ 60,866
U.S. Department of Justice	6,120
FEMA	51,243
Local Government Funds	61,188
Gasoline Tax	105,014
Motor Vehicle License Tax	28,083
Homestead and Rollback	31,500
Permissive Tax	4,232
Ohio BWC Refund	1,781
ODOT on Behalf Payments	<u>124,128</u>
Total Governmental Activities	<u>\$ 474,155</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Balance</u> <u>12/31/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Governmental Activities:</u>				
Non-Depreciable Capital Assets:				
Art work and historical treasures	\$ 291,000	\$ -	\$ -	\$ 291,000
Construction in progress	1,180,299	1,196,464	(2,369,540)	7,223
Land	<u>1,409,650</u>	<u>-</u>	<u>-</u>	<u>1,409,650</u>
Total Non-Depreciable Capital Assets	<u>2,880,949</u>	<u>1,196,464</u>	<u>(2,369,540)</u>	<u>1,707,873</u>
Depreciable Capital Assets:				
Land Improvements	363,025	-	-	363,025
Buildings	2,439,609	86,549	-	2,526,158
Equipment	1,529,166	62,800	(70,582)	1,521,384
Infrastructure	8,116,736	1,998,432	-	10,115,168
Vehicles	<u>2,237,368</u>	<u>403,883</u>	<u>(179,182)</u>	<u>2,462,069</u>
Total Depreciable Capital Assets	<u>14,685,904</u>	<u>2,551,664</u>	<u>(249,764)</u>	<u>16,987,804</u>
Accumulated Depreciation:				
Land Improvements	(186,997)	(10,536)	-	(197,533)
Buildings	(1,023,751)	(55,145)	-	(1,078,896)
Equipment	(1,214,681)	(69,959)	56,470	(1,228,170)
Infrastructure	(5,081,623)	(177,945)	-	(5,259,568)
Vehicles	<u>(1,510,569)</u>	<u>(138,897)</u>	<u>146,407</u>	<u>(1,503,059)</u>
Total Accumulated Depreciation	<u>(9,017,621)</u>	<u>(452,482)</u>	<u>202,877</u>	<u>(9,267,226)</u>
Total Depreciable Capital Assets, Net	<u>5,668,283</u>	<u>2,099,182</u>	<u>(46,887)</u>	<u>7,720,578</u>
Governmental Capital Assets, Net	<u>\$ 8,549,232</u>	<u>\$ 3,295,646</u>	<u>\$ (2,416,427)</u>	<u>\$ 9,428,451</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
General Government	\$ 191,116
Security of Persons and Property	151,068
Public Health Services	8,635
Transportation	79,462
Leisure Time Activities	<u>22,201</u>
Total Depreciation Expense	<u>\$ 452,482</u>

	<u>Balance</u> <u>12/31/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Business-Type Activities:</u>				
Non-Depreciable Capital Assets:				
Land	\$ 3,122,332	\$ -	\$ -	\$ 3,122,332
Construction in Progress	<u>1,128,832</u>	<u>5,796,613</u>	<u>(1,328,910)</u>	<u>5,596,535</u>
Total Non-Depreciable Capital Assets	<u>4,251,164</u>	<u>5,796,613</u>	<u>(1,328,910)</u>	<u>8,718,867</u>
Depreciable Capital Assets:				
Land Improvements	34,348	-	-	34,348
Buildings	1,119,872	65,400	-	1,185,272
Equipment	3,142,387	126,692	(80,245)	3,188,834
Infrastructure	45,435,641	1,328,910	-	46,764,551
Vehicles	<u>2,237,513</u>	<u>71,821</u>	<u>(7,000)</u>	<u>2,302,334</u>
Total Depreciable Capital Assets	<u>51,969,761</u>	<u>1,592,823</u>	<u>(87,245)</u>	<u>53,475,339</u>
Accumulated Depreciation:				
Land Improvements	(16,569)	(851)	-	(17,420)
Buildings	(575,877)	(20,761)	-	(596,638)
Equipment	(2,450,782)	(146,960)	23,644	(2,574,098)
Infrastructure	(12,206,648)	(1,340,968)	-	(13,547,616)
Vehicles	<u>(1,815,858)</u>	<u>(94,974)</u>	<u>6,650</u>	<u>(1,904,182)</u>
Total Accumulated Depreciation	<u>(17,065,734)</u>	<u>(1,604,514)</u>	<u>30,294</u>	<u>(18,639,954)</u>
Total Depreciable Capital Assets, Net	<u>34,904,027</u>	<u>(11,691)</u>	<u>(56,951)</u>	<u>34,835,385</u>
Business-Type Activities Capital Assets, Net	<u>\$ 39,155,191</u>	<u>\$ 5,784,922</u>	<u>\$ (1,385,861)</u>	<u>\$ 43,554,252</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the enterprise funds as follows:

<u>Business-type activities:</u>	
Water	\$ 287,267
Sewer	744,213
Electric	393,100
Garbage	51,912
Railroad	<u>128,022</u>
Total Depreciation Expense	<u>\$ 1,604,514</u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

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

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

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

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

The proportionate share of each plan’s unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *due to other governments* on both the accrual and modified accrual bases of accounting.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

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

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

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

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

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3% COLA adjustment on the defined benefit portion of their benefit.

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

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

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
 Employee	 10.0 %

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

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$490,564 for 2016. Of this amount, \$44,525 is reported as due to other governments.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

	Police
2016 Statutory Maximum Contribution Rates	
Employer	19.50 %
Employee	12.25 %
 2016 Actual Contribution Rates	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	0.50 %
 Total Employer	 19.50 %
 Employee	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$164,049 for 2016. Of this amount \$13,418 is reported as due to other governments.

In addition to current contributions, the City pays installments on a specific liability of the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2016, the specific liability of the City was \$29,145 payable in semi-annual payments through the year 2035.

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

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2015, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03140400%	0.03705100%	
Proportion of the net pension liability current measurement date	<u>0.03138000%</u>	<u>0.03745200%</u>	
Change in proportionate share	<u>-0.00002400%</u>	<u>0.00040100%</u>	
Proportion of the net pension asset prior measurement date	0.01215700%		
Proportion of the net pension asset current measurement date	<u>0.01260000%</u>		
Change in proportionate share	<u>0.00044300%</u>		
Proportionate share of the net pension liability	\$ 5,435,412	\$ 2,409,344	\$ 7,844,756
Proportionate share of the net pension asset	5,706	-	5,706
Pension expense	764,495	329,440	1,093,935

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 25	\$ -	\$ 25
Net difference between projected and actual earnings on pension plan investments	1,600,140	392,144	1,992,284
Changes in employer's proportionate percentage/ difference between employer contributions	13,203	23,936	37,139
City contributions subsequent to the measurement date	<u>490,563</u>	<u>164,049</u>	<u>654,612</u>
Total deferred outflows of resources	<u>\$ 2,103,931</u>	<u>\$ 580,129</u>	<u>\$ 2,684,060</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 107,625	\$ 6,765	\$ 114,390
Changes in employer's proportionate percentage/ difference between employer contributions	<u>8,457</u>	<u>8,209</u>	<u>16,666</u>
Total deferred inflows of resources	<u>\$ 116,082</u>	<u>\$ 14,974</u>	<u>\$ 131,056</u>

\$654,612 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2017.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Year Ending December 31:	OPERS	OP&F	Total
2017	\$ 348,579	\$ 103,834	\$ 452,413
2018	380,160	103,834	483,994
2019	408,021	103,833	511,854
2020	361,791	85,664	447,455
2021	(325)	3,310	2,985
Thereafter	(943)	631	(312)
Total	\$ 1,497,283	\$ 401,106	\$ 1,898,389

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or ad hoc COLA	Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.80% simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 401 (h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City’s proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 8,659,939	\$ 5,435,412	\$ 2,715,625
Combined Plan	(117)	(5,703)	(10,196)
Member-Directed Plan	9	(3)	(9)

Changes Between Measurement Date and Report Date

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

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 and 3.00 percent simple

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

The most recent experience study was completed for the five-year period ended December 31, 2011. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2012 actuarial valuation.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.47 %	7.80 %
Non-US Equity	16.00	4.47	8.00
Core Fixed Income *	20.00	1.62	5.35
Global Inflation			
Protected Securities *	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
Total	<u>120.00 %</u>		

* levered 2x

** numbers include inflation

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 3,177,562	\$ 2,409,344	\$ 1,758,532

NOTE 9- POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code 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 Ohio Revised Code.

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2016, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2016 was 2.00%.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$81,760, \$82,725, and \$77,516, respectively; 92.22% has been contributed for 2016 and 100% has been contributed for 2015 and 2014. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments/pension and postemployment benefits payable on the basic financial statements.

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

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

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

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

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers were \$4,317 for the year ended December 31, 2016, \$4,563 for the year ended December 31, 2015, and \$3,848, for the year ended December 31, 2014. 100% has been contributed for 2015 and 2014. 92.03% has been contributed for police for 2016. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments/pension and postemployment benefits payable on the basic financial statements.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plans

City employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

B. Additional Insurance

The City provides \$40,000 in life insurance and accidental death and dismemberment insurance to its full-time employees working a minimum of twenty hours per week through Guardian Life Insurance Company.

The City provides comprehensive major medical insurance through United Healthcare. The City pays 94 percent of the total monthly premiums of \$1,474.80 for family coverage and \$530.54 for single coverage.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

NOTE 10 - OTHER EMPLOYEE BENEFITS - (Continued)

C. Compensated Absences

Vacation leave is earned at varying rates based upon length of service. A maximum number of vacation hours may be accumulated based on length of service. At the time of termination of employment or death, an employee (or his estate) is paid for his unused vacation leave.

Sick leave is earned at the rate of four and six tenths hours per eighty hours of service and can be accumulated without limit. In the case of death or retirement of an employee who has five to nine years of service, the employee or his estate is paid for fifty percent of his accumulated sick leave, and an employee who has ten years or more is paid one hundred percent of his accumulated sick leave.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2016, the City contracted with Jones-Stephenson for property and general liability, automobile liability, boiler and machinery liability, law enforcement liability, and public officials' liability.

Under the Jones-Stephenson program for general liability, law enforcement liability, and public officials' liability, the City has \$1,000,000 of total liability coverage for each occurrence, and a \$1,000,000 aggregate limit. The City carries a \$20,000 deductible for law enforcement and \$15,000 for public officials' liability insurance. Property insurance is covered to a limit of \$7,000,000 with a \$5,000 deductible. Under automobile liability the City has \$1,000,000 of total liability coverage for each occurrence. Automobile insurance carries a \$500 per vehicle deductible for comprehensive coverage and a \$1,000 per vehicle collision coverage. Boiler and machinery insurance is covered to a limit of \$7,000,000 with various sublimits. The City carries a \$10,000 deductible for boiler and machinery liability. Settlements have not exceeded coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

The City is a member in good standing of the Ohio Rural Water Association (ORWA) group rating plan. The intent of the City's membership in the ORWA is to achieve the benefit of reduced workers' compensation premiums, foster safer working conditions, and promote cost effective claims management by virtue of its grouping and representation with other members of the ORWA. The City pays a workers' compensation premium based on its individual workers' compensation claim experience; then the workers' compensation claim experience of the ORWA members is calculated as one experience. A comparison is calculated and each member's individual workers' compensation claim experience is compared to the workers' compensation claim experience of the ORWA members. A member may then receive a refund for a favorable comparison to the group or contribute to an equity pooling fund for an unfavorable comparison. The equity pooling arrangement ensures that each member shares equally in the overall experience of the ORWA members. CompManagement, Inc. is the third party administrator that provides case management, consulting and administrative services to participating members of the ORWA.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 11 - RISK MANAGEMENT - (Continued)

Beginning in 2004, the City manages the deductible portion of employee health benefits on a self-insured basis. The employee health benefit plan provides this coverage through Patrick and Associates, the third party administrator of the program, which reviews and pays the claims. Patrick and Associates charges the City a monthly administration fee of \$6.75 per employee. The claims liability of \$31,352 reported in the self-insurance fund at December 31, 2016, is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the internal services fund's claims liability amounts in the past two years follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2016	\$28,847	\$306,250	(\$303,745)	\$ 31,352
2015	23,128	354,310	(348,591)	28,847

NOTE 12 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

Governmental Activities:

During 2015, the City entered into two lease purchase agreements to assist in the purchase of a new aerial platform truck and a new pumper fire truck.

General capital assets acquired by the agreement have been capitalized in the amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a corresponding liability was recorded in the government-wide financial statements.

Capital assets consisting of vehicles have been capitalized in the amount of \$526,400. This amount represents the present value of the minimum lease payments at the time of acquisition.

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CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 12 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2017	\$ 56,857
2018	56,857
2019	56,858
2020	56,857
2021	56,857
2022-2026	246,333
2027	<u>18,902</u>
Total minimum lease payments	549,521
Less: amount representing interest	<u>(66,696)</u>
Present value of future minimum lease payments	<u>\$ 482,825</u>

Business-type Activities

During 2016, the City entered into a lease purchase agreement to assist in the purchase of a new garbage truck.

As of December 31, 2016, the City has not taken possession of the garbage truck, therefore no capital asset has been capitalized. The proceeds from the lease purchase agreement are being held in escrow.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>
2017	\$ 29,175
2018	29,175
2019	29,175
2020	<u>29,175</u>
Total minimum lease payments	116,700
Less: amount representing interest	<u>(5,041)</u>
Present value of future minimum lease payments	<u>\$ 111,659</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in the City's long-term obligations during 2016 consist of the following:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amounts Due Within One Year
<u>Governmental Activities:</u>					
<u>Notes</u>					
Building Acquisition Note 4.0%	\$ 72,455	\$ -	\$ (6,496)	\$ 65,959	\$ 6,730
Building Improvement Note 4.0%	57,877	-	(5,041)	52,836	5,392
WesBanco Aerial Truck Lease Purchase	326,400	-	(28,664)	297,736	29,503
Milton Pumper Truck Lease Purchase	200,000	-	(14,911)	185,089	15,219
Total Notes	<u>656,732</u>	<u>-</u>	<u>(55,112)</u>	<u>601,620</u>	<u>56,844</u>
Police and Fire Pension Liability	30,168	-	(1,023)	29,145	1,067
Compensated Absences	656,122	190,383	(176,573)	669,932	186,228
Net Pension Liability	<u>3,244,077</u>	<u>1,053,655</u>	<u>-</u>	<u>4,297,732</u>	<u>-</u>
Total Governmental Activities	<u>\$ 4,587,099</u>	<u>\$ 1,244,038</u>	<u>\$ (232,708)</u>	<u>\$ 5,598,429</u>	<u>\$ 244,139</u>
<u>Business-Type Activities:</u>					
<u>Bonds</u>					
2007 Water System General Obligation Bonds 4%	\$ 1,030,000	\$ -	\$ (200,000)	\$ 830,000	\$ 215,000
Unamortized Bond Premium	13,077	-	(1,198)	11,879	-
2014 Refunded Electric System Revenue Bonds	<u>2,165,000</u>	<u>-</u>	<u>(185,000)</u>	<u>1,980,000</u>	<u>200,000</u>
Total Bonds Payable	<u>3,208,077</u>	<u>-</u>	<u>(386,198)</u>	<u>2,821,879</u>	<u>415,000</u>
<u>Notes Payable</u>					
2001 Holzer Hospital Water Lines 0%	92,559	-	(13,333)	79,226	13,333
2002 Holzer Hospital Lift Station 0%	<u>140,442</u>	<u>-</u>	<u>(28,713)</u>	<u>111,729</u>	<u>28,713</u>
Total Notes Payable	<u>233,001</u>	<u>-</u>	<u>(42,046)</u>	<u>190,955</u>	<u>42,046</u>
2015 OPWC Loan 0%	284,978	342,795	-	627,773	20,933
2007 OWDA Loan 1%	5,218,750	-	(393,974)	4,824,776	397,923
2009 OWDA Loan 0%	1,000,714	-	(69,015)	931,699	69,014
2015 OWDA Loan 3.41% (#7011)	53,591	120,882	(3,550)	170,923	3,550
2015 OWDA Loan 1% (#7047)	<u>397,410</u>	<u>2,716,972</u>	<u>(82,789)</u>	<u>3,031,593</u>	<u>82,789</u>
Total OWDA Loans	<u>6,670,465</u>	<u>2,837,854</u>	<u>(549,328)</u>	<u>8,958,991</u>	<u>553,276</u>
<u>Other Long-Term Obligations</u>					
AMP-Ohio Stranded Costs Payable	1,136,996	809	(500,000)	637,805	500,000
Garbage Truck Lease Purchase	-	140,834	(29,175)	111,659	27,176
Compensated Absences Payable	759,768	167,222	(166,339)	760,651	172,495
Net Pension Liability	<u>2,462,993</u>	<u>1,084,031</u>	<u>-</u>	<u>3,547,024</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 14,756,278</u>	<u>\$ 4,573,545</u>	<u>\$ (1,673,086)</u>	<u>\$ 17,656,737</u>	<u>\$ 1,730,926</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Governmental Activities:

Notes Payable

The City will pay the Building Acquisition and Improvement Notes from the Community Improvement Nonmajor Special Revenue Fund. Principal and interest requirements to retire these outstanding notes at December 31, 2016, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 12,122	\$ 3,905	\$ 16,027
2018	12,547	3,480	16,027
2019	12,986	3,040	16,026
2020	13,433	2,593	16,026
2021	13,911	2,116	16,027
2022 - 2025	<u>53,796</u>	<u>3,460</u>	<u>57,256</u>
Total	<u>\$ 118,795</u>	<u>\$ 18,594</u>	<u>\$ 137,389</u>

Lease Purchase Agreement

See Note 12 for detail the lease purchase agreements.

Police and Fire Pension Liability

The City will pay the Police and Fire Pension Liability from the General Fund. Principal and interest requirements to retire the City's police and fire pension liability outstanding at December 31, 2016, are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,067	\$ 1,228	\$ 2,295
2018	1,113	1,182	2,295
2019	1,160	1,135	2,295
2020	1,211	1,084	2,295
2021	1,263	1,032	2,295
2022 - 2026	7,175	4,300	11,475
2027 - 2031	8,852	2,623	11,475
2032 - 2035	<u>7,304</u>	<u>629</u>	<u>7,933</u>
Total	<u>\$ 29,145</u>	<u>\$ 13,213</u>	<u>\$ 42,358</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences Payable

The City will pay compensated absences from the General Fund and the Cemetery and Street Construction, Maintenance and Repair Nonmajor Special Revenue Funds.

As of December 31, 2016, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$12,073,516, with an unvoted debt margin of \$6,639,357.

Net Pension Liability

See Note 8 for detail on the net pension liability.

Business-Type Activities:

Bonds

In 1993, Water System Revenue Bonds were issued in the amount of \$2,910,000 for the purpose of (1) current refunding and permanent financing of \$2,540,000 of the City's bond anticipation notes issued to pay part of the costs of water system improvements, (2) funding a debt service reserve account, and (3) paying certain costs related to the issuance of the Series 1993 Bonds, together with other permissible costs under the Uniform Public Securities Law.

On October 9, 2007, the City issued \$2,375,000 in Water System General Obligation Bonds, with a premium of \$22,761, for the purpose of (1) defeasing the 1993 Water System Revenue Bonds, and (2) paying for additional water system improvements.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$49,314. This difference, reported as unamortized deferred charges on debt refunding, is being charged to interest through 2026.

The refunding bonds are serial bonds and are not subject to redemption prior to stated maturity.

Principal and interest requirements for the Water System General Obligation Bonds are as follows:

Year	Principal	Interest	Total
2017	\$ 215,000	\$ 33,962	\$ 248,962
2018	220,000	25,962	245,962
2019	45,000	16,562	61,562
2020	45,000	14,762	59,762
2021	45,000	12,962	57,962
2022 - 2026	260,000	33,788	293,788
Total	\$ 830,000	\$ 137,998	\$ 967,998

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

In 2006, the City issued \$6,495,000 in Electric System Revenue Bonds for the purpose of (1) permanent financing of the City’s \$2,765,000 bond anticipation note issued to pay part of the costs of electric system upgrades, and (2) paying for additional electric system improvements, and (3) paying certain costs related to the issuance of Series 1993 Bonds, together with other permissible costs under the Uniform Public Securities Law.

On September 12, 2014, the City issued electric system revenue refunding bonds (Series 2014), par value \$2,680,000. The proceeds was used to advance refund the Series 2006 revenue bonds. The issuance proceeds were deposited into an escrow trust fund, which consists of cash and direct or guaranteed non-callable government obligations. The principal of this escrow trust, when due, will be sufficient to pay on the redemption date the principal of, redemption premium and interest on the Series 2006 bonds. This refunded debt is considered defeased (in substance) and accordingly, has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$101,854. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The City has pledged future electric customer revenues, net of specified operating expenses, to repay \$2,680,000 in electric system revenue bonds issued in 2014. Proceeds from the original bonds provided financing for various electric utility projects. The bonds are payable solely from electric customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require 10.20 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,238,720. Principal and interest paid for the current year and total customer net revenues were \$238,042 and \$2,333,691, respectively.

Principal and interest requirements for revenue bonds are as follows:

Year	Principal	Interest	Total
2017	\$ 200,000	\$ 48,510	\$ 248,510
2018	210,000	43,610	253,610
2019	200,000	38,465	238,465
2020	205,000	33,565	238,565
2021	185,000	28,542	213,542
2022 - 2026	980,000	66,028	1,046,028
Total	\$ 1,980,000	\$ 258,720	\$ 2,238,720

Notes Payable

The Holzer Hospital loans were for improvements to water and sewer lines to and from the hospital facility. Payment for this debt will come in the form of reduced user fees paid by the hospital until the debt is paid.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

OPWC Loan

In 2016, the City received loans in the amount of \$342,795 from the Ohio Public Works Commission for sewer projects. The sewer loan has interest rate of zero percent matures July 1, 2046.

Principal and interest requirements are as follows:

Year	OPWC Sewer Loan		
	Principal	Interest	Total
2017	\$ 20,933	\$ -	\$ 20,933
2018	20,933	-	20,933
2019	20,933	-	20,933
2020	20,933	-	20,933
2021	20,933	-	20,933
2022 - 2026	104,665	-	104,665
2027-2031	104,665	-	104,665
2032-2036	104,665	-	104,665
2037-2041	104,665	-	104,665
2042-2046	104,448	-	104,448
Total	<u>\$ 627,773</u>	<u>\$ -</u>	<u>\$ 627,773</u>

OWDA Loans

In 2016, the City received loans in the amount of \$120,882 and \$2,716,972 from the Ohio Water Development Authority (“OWDA”) for sewer projects. The sewer loans have interest rates of 3.41 percent and 1.00 percent and mature July 1, 2045 and July 1, 2036, respectively. Along with these loans, the City has loans in the amounts \$8,051,554 for a sewer project and a \$1,380,295 for a water project from OWDA. The sewer loan has a 1.00 percent interest rate and matures July 1, 2028. The water loan has a zero percent interest rate and matures July 1, 2030.

The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable solely from sewer and water revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2016, the City has outstanding borrowings of \$8,958,991. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

The City has pledged future sewer revenues to repay the 2007 and 2015 OWDA loans. These loans are payable solely from sewer fund revenues and are payable through 2028. Annual principal and interest payments on the loan exceed net revenues and are 68.73 percent of net customer revenues. The total principal and interest remaining to be paid on the loans is \$8,322,071. Principal and interest paid for the current year were \$555,791 and total net revenues were \$808,653.

The City has pledged future water revenues to repay the 2009 OWDA loan. This loan is payable solely from water fund revenues and are payable through 2030. Annual principal and interest payments on the loan exceed net revenues and are 40.26 percent of net customer revenues. The total principal and interest remaining to be paid on the loan is \$931,699. Principal and interest paid for the current year were \$69,015 and total net revenues were \$171,425.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The 2016 OWDA loans were not fully disbursed, therefore no amortization schedule was available.

Principal and interest requirements are as follows:

<u>OWDA Sewer Loan</u>			
Year	Principal	Interest	Total
2017	\$ 397,923	\$ 47,256	\$ 445,179
2018	401,912	43,266	445,178
2019	405,942	39,237	445,179
2020	410,011	35,168	445,179
2021	414,121	31,057	445,178
2022 - 2026	2,133,721	92,173	2,225,894
2027 - 2028	<u>661,146</u>	<u>6,622</u>	<u>667,768</u>
Total	<u>\$ 4,824,776</u>	<u>\$ 294,779</u>	<u>\$ 5,119,555</u>

<u>OWDA Water Loan</u>			
Year	Principal	Interest	Total
2017	\$ 69,014	\$ -	\$ 69,014
2018	69,015	-	69,015
2019	69,015	-	69,015
2020	69,014	-	69,014
2021	69,015	-	69,015
2022 - 2026	345,075	-	345,075
2027 - 2030	<u>241,551</u>	<u>-</u>	<u>241,551</u>
Total	<u>\$ 931,699</u>	<u>\$ -</u>	<u>\$ 931,699</u>

AMP-Ohio Stranded Cost Payable

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's project share was 18,400 kilowatts (kW) of a total 771,281 kW, giving the City a 2.39 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed impaired and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share of the impaired costs at March 31, 2014 was \$3,195,260. The City received a credit of \$752,234 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$832,137 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired costs balance of \$1,610,889. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's net impaired cost balance either positively or negatively. These amounts will be recorded as they become estimable.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the City has made payments of \$1,033,590 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is \$32,063 and interest expense incurred on AMP's line-of-credit of \$28,443, resulting in a net impaired cost estimate at December 31, 2016 of \$637,805. The City does have a potential PHFU Liability of \$855,909 resulting in a net total potential liability of \$1,493,714, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the City's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

The City has made a payment arrangement with AMP with a valuable interest rate and an estimated time of completion of payments of February 2019. Principal and interest payments are made from the electric fund.

Lease Purchase Agreement

See Note 12 for detail the lease purchase agreements.

Compensated Absences Payable

The City will pay compensated absences from the Water, Sewer, Garbage, and Electric Enterprise Funds.

Net Pension Liability

See Note 8 for detail on the net pension liability.

NOTE 14 - INTERFUND ACTIVITY

A. Interfund transfers for the year ended December 31, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfer from</u>	<u>Transfer to Other Governmental Funds</u>
General Fund	\$ 82,145
Other Governmental Funds	<u>3,416</u>
Total	<u>\$ 85,561</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 14 - INTERFUND ACTIVITY (Continued)

The transfers from the General Fund were to use unrestricted revenue to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers from other governmental funds represent transfers of interest from permanent funds to operating funds.

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

- B.** Interfund loans consisted of the following at December 31, 2016, as reported on the fund financial statements:

General Fund	Nonmajor governmental funds	<u>\$ 53,805</u>
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The interfund loan balances result from resources provided by the receivable fund to the payable fund to provide cash flow resources until anticipated revenues are received. Interfund loans payable/receivable between governmental funds are eliminated on the government-wide financial statements.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING (Continued)

	<u>General Fund</u>
Budget basis	\$ 37,843
Net adjustment for revenue accruals	7,692
Net adjustment for expenditure accruals	127,046
Net adjustment for other sources/uses	53,805
Funds budgeted elsewhere	(18,162)
Adjustment for encumbrances	<u>28,035</u>
GAAP basis	<u>\$ 236,259</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis.

NOTE 16 - JOINT VENTURE

The City of Jackson is a Financing Participant with an ownership percentage of 7.14%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Also, pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2016, the City has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued)

NOTE 16 - JOINT VENTURE (Continued)

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30-year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004, the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. In 2016 the note was refunding in full by the issuance of 2016 Beneficial Interest Certificates.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$213,335 at December 31, 2016. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

NOTE 17 - CONTINGENT LIABILITIES

A. Litigation

The City is currently party to legal proceedings. The City's management is unable to determine what, if any, impact the ultimate disposition of claims will have on the financial condition of the City.

B. Federal and State Grants

For the period January 1, 2016 to December 31, 2016, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 18 - CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued industrial revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements

As of December 31, 2010 (the latest information available), there was one series of hospital facilities revenue bonds outstanding with an aggregate principal amount payable of \$21,105,000.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 19 - FUND BALANCE

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

Fund balance	General	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Materials and supplies inventory	\$ 2,801	\$ 63,505	\$ 66,306
Prepaid	95,078	27,246	122,324
Perpetual care	-	100,000	100,000
Unclaimed monies	<u>44,084</u>	<u>-</u>	<u>44,084</u>
Total nonspendable	<u>141,963</u>	<u>190,751</u>	<u>332,714</u>
Restricted:			
Community development	-	641,105	641,105
Cemetery	-	613,121	613,121
Transportation	-	295,197	295,197
Public safety	-	234,950	234,950
Lillian Jones museum	-	320,666	320,666
Youth art program	-	512,377	512,377
Capital Projects	-	2,205	2,205
Other purposes	<u>-</u>	<u>76,771</u>	<u>76,771</u>
Total restricted	<u>-</u>	<u>2,696,392</u>	<u>2,696,392</u>
Committed:			
Capital projects	-	7,330	7,330
Recreation	-	527,722	527,722
Other purposes	<u>-</u>	<u>123,550</u>	<u>123,550</u>
Total committed	<u>-</u>	<u>658,602</u>	<u>658,602</u>
Assigned:			
Recreation	3,624	-	3,624
Community development	46,570	-	46,570
Other purposes	2,137	-	2,137
General government	3,703	-	3,703
Subsequent year appropriations	<u>570,420</u>	<u>-</u>	<u>570,420</u>
Total assigned	<u>626,454</u>	<u>-</u>	<u>626,454</u>
Unassigned	<u>905,923</u>	<u>(50,362)</u>	<u>855,561</u>
Total fund balances	<u>\$ 1,674,340</u>	<u>\$ 3,495,383</u>	<u>\$ 5,169,723</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)

NOTE 20 - COMMITMENTS

A. Contractual Commitments

At December 31, 2016, the City had the following contractual commitments:

<u>Project</u>	<u>Fund</u>	<u>Purchase Commitments</u>	<u>Amount Paid as of 12/31/2016</u>	<u>Amount Remaining on Contracts</u>
Harding Avenue Bridge Replacement	Comm Improvement	\$ 841,448	\$ 820,383	\$ 21,065
Huron Street Bridge Replacement	Electric	1,156,984	1,053,921	103,063
Timekeeping Software	Various	11,219	7,223	3,996
WWTP Improvements Phase 1	Wastewater Plant	4,395,200	2,743,419	1,651,781
13.2 KV Circuit #2, 2A, 5 Conversion	Electric	2,574,372	2,097,280	477,092
13.2 KV Circuit #4 Conversion	Electric	945,984	751,409	194,575
Garbage Packer Truck	Garbage	140,834	-	140,834
Main Street Brick Removal Project		873,345	-	873,345
Total		<u>\$ 10,939,386</u>	<u>\$ 7,473,635</u>	<u>\$ 3,465,751</u>

B. Other Commitments

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 3,703
Nonmajor governmental funds	<u>363,250</u>
Total	<u>\$ 366,953</u>

CITY OF JACKSON, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>			
City's proportion of the net pension liability	0.031380%	0.031404%	0.031404%
City's proportionate share of the net pension liability	\$ 5,435,412	\$ 3,787,674	\$ 3,702,121
City's covered-employee payroll	\$ 4,093,642	\$ 3,659,608	\$ 3,779,815
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	132.78%	103.50%	97.94%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%
<i>Combined Plan:</i>			
City's proportion of the net pension asset	0.011720%	0.012157%	0.012157%
City's proportionate share of the net pension asset	\$ 5,703	\$ 4,682	\$ 1,275
City's covered-employee payroll	\$ 42,658	\$ 44,433	\$ 50,962
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	13.37%	10.54%	2.50%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>			
City's proportion of the net pension asset	0.000880%	n/a	n/a
City's proportionate share of the net pension asset	\$ 3	n/a	n/a
City's covered-employee payroll	\$ 4,900	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.06%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	103.91%	n/a	n/a

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF JACKSON, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.03745200%	0.03705100%	0.03705100%
City's proportionate share of the net pension liability	\$ 2,409,344	\$ 1,919,396	\$ 1,804,500
City's covered-employee payroll	\$ 888,521	\$ 769,095	\$ 833,772
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	271.16%	249.57%	216.43%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	72.20%	73.00%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

CITY OF JACKSON, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 484,941	\$ 491,237	\$ 439,153	\$ 491,376
Contributions in relation to the contractually required contribution	<u>(484,941)</u>	<u>(491,237)</u>	<u>(439,153)</u>	<u>(491,376)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,041,175	\$ 4,093,642	\$ 3,659,608	\$ 3,779,815
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 5,119	\$ 5,119	\$ 5,332	\$ 6,625
Contributions in relation to the contractually required contribution	<u>(5,119)</u>	<u>(5,119)</u>	<u>(5,332)</u>	<u>(6,625)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 42,658	\$ 42,658	\$ 44,433	\$ 50,962
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 504	\$ 588		
Contributions in relation to the contractually required contribution	<u>(504)</u>	<u>(588)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 4,200	\$ 4,900		
Contributions as a percentage of covered-employee payroll	12.00%	12.00%		

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 365,450	\$ 364,759	\$ 304,917	\$ 291,588	\$ 249,992	\$ 266,980
<u>(365,450)</u>	<u>(364,759)</u>	<u>(304,917)</u>	<u>(291,588)</u>	<u>(249,992)</u>	<u>(266,980)</u>
<u>\$ -</u>					
\$ 3,654,500	\$ 3,647,590	\$ 3,419,630	\$ 3,588,775	\$ 3,571,314	\$ 3,197,365
10.00%	10.00%	8.92%	8.13%	7.00%	8.35%
\$ 4,214	\$ 2,917	\$ -	\$ -	\$ -	\$ -
<u>(4,214)</u>	<u>(2,917)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>					
\$ 53,006	\$ 36,692	\$ -	\$ -	\$ -	\$ -
7.95%	7.95%	9.69%	8.13%	7.00%	8.35%

CITY OF JACKSON, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>				
Contractually required contribution	\$ 164,049	\$ 168,819	\$ 146,128	\$ 132,403
Contributions in relation to the contractually required contribution	<u>(164,049)</u>	<u>(168,819)</u>	<u>(146,128)</u>	<u>(132,403)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 863,416	\$ 888,521	\$ 769,095	\$ 833,597
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	15.88%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 96,149	\$ 93,383	\$ 88,651	\$ 89,719	\$ 95,434	\$ 88,231
<u>(96,149)</u>	<u>(93,383)</u>	<u>(88,651)</u>	<u>(89,719)</u>	<u>(95,434)</u>	<u>(88,231)</u>
<u>\$ -</u>					
\$ 754,110	\$ 732,416	\$ 695,302	\$ 703,678	\$ 748,502	\$ 692,008
12.75%	12.75%	12.75%	12.75%	12.75%	12.75%

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

City of Jackson
Jackson County
P.O. Box 1090
Jackson, Ohio 45640

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 Jackson, Jackson County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2017, wherein we noted the City restated the January 1, 2016 fund balance in the Sewer Enterprise Fund due to the omission of a loan payable.

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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider Finding 2016-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2016-001.

Entity's Response to Findings

The City's response to the Finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

September 20, 2017

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

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

FINDING NUMBER 2016-001

Noncompliance and Material Weakness

Ohio Rev. Code § 4939.05(C) provides public way fees levied by a municipal corporation shall be based only on costs that the municipal corporation both has actually incurred and can clearly demonstrate are or can be properly allocated and assigned to the occupancy or use of a public way. The costs shall be reasonably and competitively neutrally allocated among all persons occupying or using public ways owned or controlled by the municipal corporation, including, but not limited to, persons for whom payments are waived as authorized by division (B) of this section or for which compensation is otherwise obtained. No public way fee shall include a return on or exceed the amount of costs reasonably allocated by the municipal corporation to such occupant or user or pursuant to any reasonable classification of occupants or users.

Ohio Rev. Code § 4939.05(D) provides that a municipal corporation that levies a public way fee shall establish and maintain a special fund for all such fees remitted to the municipal corporation and, with respect to that special fund, shall be subject to §§ 5705.09, 5705.10, 5705.14, 5705.15, 5705.16, 5705.39, 5705.40, 5705.41, 5705.44, and 5705.45 of the Revised Code and any other applicable provision of Chapter 5705 of the Revised Code concerning the establishment or maintenance of a special fund.

The City contracted with a third-party consultant, Maximus, Inc., to develop a cost allocation plan that would allow the City's General Fund to recover indirect costs incurred on behalf of the other City funds, as well as a "Rents and Right-of-Ways" fee to the General Fund calculated as 5 percent of Utility Funds' annual revenue.

The formal indirect cost allocation plan provided support to allocate \$776,009 to the General Fund from the utility funds (Water, Sewer, Garbage and Electric Funds).

Council adopted City Ordinance 67-09 enacting a Right of Way Management Assessment Plan and Policy for City Utilities. The Ordinance provides that "the General Fund is responsible for maintenance, care, and upkeep of the streets, alleys, and other public grounds within the City. In order to provide service to customers the City's Utilities use and access the City's streets, alleys, and other public grounds to convey, among other services, water service, sewer service, and electric service. The City's Utilities may be assessed a fair charge for the use of the City's streets, alleys, and other public grounds, in order that the streets, alleys, and other public grounds may be properly maintained."

Based on this Ordinance, the General Fund charged the Utility Funds an additional \$1,260,548 for Rents and Right of Ways as follows: Water Fund \$121,293, Sewer Fund \$192,138, and Electric Fund \$947,117. However, contrary to City Ordinance 67-09, the City could not provide any evidence that General Fund monies were expended for any costs relating to the maintenance of the City's streets, alleys, and other public grounds.

Upon request to provide documentation demonstrating the \$1,260,548 was for costs actually incurred and to clearly demonstrate how they can be properly allocated and assigned to the occupancy or use of a public way, management cited costs that were not discussed in the Ordinance 67-09. Since they could not provide evidence the General Fund incurred costs associated with the streets, alleys or public grounds, they claimed that they have been charging 35% of total police department expenditures, including police department debt, were directly related to the utilities. Management listed activities such as "patrolling the water, sewer and electric lines, dispatching additional police during blackouts and monitoring the roads for inclement weather relating to utilities such as snow and ice" as actual costs.

CITY OF JACKSON
JACKSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016
(Continued)

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

FINDING NUMBER 2016-001 (Continued)

Noncompliance and Material Weakness - Ohio Rev. Code § 4939.05(C) (Continued)

Since the basis for allocation of Rents and Right of Ways identified in the Ordinance allowing for such cost recovery was not used either fully or partially since its inception and no mention was made in the Board minutes recognizing that 35% of the police departments expenditures are directly related to the utilities, the Rents and Right-of-Way fees are not reasonable nor are they based on costs the City's General Fund has actually incurred, nor can the City clearly demonstrate they are, or can be, properly allocated and assigned to the occupancy or use of a public way.

The failure to clearly document support of the fairness of the assessed charge can indicate that utility fund revenues are being used to subsidize the City's General Fund and can result in future findings for adjustment to remove amounts back to the original fund. If charges assessed can be documented as fair, the failure to establish and maintain the required special fund for any such supported fees remitted to the City's General Fund can also result in findings for adjustment.

The City should maintain sufficient documentation to support the fairness of the assessed Rents and Right-of-Ways fee. This documentation of support should include specifically identified expenses incurred by the City related to this purpose. We further recommend the City establish and maintain a Special Fund in accordance with Ohio Rev. Code § 4939.05(D) to account for all such fees remitted to the City.

Official's Response: The City has reviewed the information provided in Finding Number 2016-001. The City and the Auditor of State's Office met on June 8, 2017 to discuss this finding and arrive at a mutually agreed upon solution. During this meeting the City and the State agreed that effective June 8, 2017 the City would begin utilizing the existing Right of Ways Fund in our current fund structure to account for all expenditures relating to Right of Way maintenance fees.



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CITY OF JACKSON

JACKSON 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 3, 2017