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Certified Public Accountants, A.C.

**CITY OF TWINSBURG
SUMMIT COUNTY
Regular Audit
For the Year Ended December 31, 2016**

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- Association of Certified Anti - Money Laundering Specialists •



Dave Yost • Auditor of State

City Council
City of Twinsburg
10075 Ravenna Rd
Twinsburg, OH 44087

We have reviewed the *Independent Auditor's Report* of the City of Twinsburg, Summit County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 15, 2017

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**CITY OF TWINSBURG
SUMMIT COUNTY**

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**CITY OF TWINSBURG
SUMMIT COUNTY**

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INDEPENDENT AUDITOR'S REPORT

July 17, 2017

City of Twinsburg
Summit County
10075 Ravenna Road
Twinsburg, Ohio 44087

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Twinsburg**, Summit 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.

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Auditor's Responsibility (continued)

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Twinsburg, Summit County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis 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 July 17, 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.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

The discussion and analysis of the City of Twinsburg's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal 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 are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2016 are as follows:

- ◆ The assets and deferred outflows of resources of the City of Twinsburg exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$172,686,036. Of this amount, \$2,492,068 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets and deferred outflows increased by \$4,545,675, which represents an increase of 2.12% over 2015. The primary change that contributed to this increase was the increase in deferred outflows related to the City's allocation of the proportionate share of the pension amounts.
- ◆ Total liabilities and deferred inflows of resources increased by \$6,790,892, which represents an increase of 17.37% over 2015. The main factor contributing to this increase was a \$7,002,137 increase in long term liabilities which can be attributed mostly to the increase in net pension liability (up \$6,865,640).
- ◆ In total, net position decreased by \$2,245,217 during 2016. This represents a 1.28% decrease from 2015.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Twinsburg's basic financial statements. The City of Twinsburg's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements – Reporting the City of Twinsburg as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position presents information on all the City of Twinsburg's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the four reported as *net position*. Over time, increase or decrease in net position may serve as a useful indicator of whether the financial position of the City of Twinsburg is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and municipal income tax laws, and the condition of the capital assets should also be considered.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

The statement of activities presents information showing how the City's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both the statement of net position and the statement of activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

In the statement of net position and the statement of activities, we divide the City into two kinds of activities:

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Municipal income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system, fitness center, golf course, and community theater are reported here.

Fund Financial Statements - Reporting the City of Twinsburg'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 objects. The City of Twinsburg, 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 of Twinsburg can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance 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. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds.

The City maintains 32 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund, park debt service fund, and the capital improvement fund, all of which are considered to be major funds. The remaining funds are combined and presented within the column titled other governmental funds.

Proprietary Funds

The City of Twinsburg maintains enterprise funds that 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 sewer system, fitness center, golf course, and other business type activity.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 28 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 32 of this report.

Government-wide Financial Analysis - City of Twinsburg as a Whole

As noted earlier, the statement of net position looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

The statement of net position and the statement of activities are divided into the following categories:

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources)
- Program expenses and revenues
- General Revenues
- Net position beginning and end of year

Table 1 provides a summary of the City's net position for 2016 as compared to 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 28,705,750	\$ 33,957,401	\$ 2,658,939	\$ 2,576,917	\$ 31,364,689	\$ 36,534,318
Capital assets, net	130,138,244	126,690,705	48,493,162	47,542,206	178,631,406	174,232,911
Net pension asset	20,236	14,884	10,290	7,701	30,526	22,585
Total assets	<u>158,864,230</u>	<u>160,662,990</u>	<u>51,162,391</u>	<u>50,126,824</u>	<u>210,026,621</u>	<u>210,789,814</u>
Deferred outflows of resources:						
Deferred charges on refunding	106,583	127,900	-	-	106,583	127,900
Pension	6,996,779	2,637,501	1,445,147	474,240	8,441,926	3,111,741
Total deferred outflows of resources	<u>7,103,362</u>	<u>2,765,401</u>	<u>1,445,147</u>	<u>474,240</u>	<u>8,548,509</u>	<u>3,239,641</u>

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Table 1
Net Position (continued)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Liabilities:						
Current and other liabilities	1,339,456	1,760,334	351,103	299,368	1,690,559	2,059,702
Long-term liabilities:						
Due within one year	2,152,904	2,008,992	176,982	120,930	2,329,886	2,129,922
Other amounts due in more than one year	12,174,682	12,199,387	481,004	519,766	12,655,686	12,719,153
Net pension liability	24,166,711	18,406,553	3,700,643	2,595,161	27,867,354	21,001,714
Total liabilities	<u>39,833,753</u>	<u>34,375,266</u>	<u>4,709,732</u>	<u>3,535,225</u>	<u>44,543,485</u>	<u>37,910,491</u>
Deferred inflows of resources:						
Property taxes	1,071,218	1,047,102	-	-	1,071,218	1,047,102
Pension	197,878	92,668	76,513	47,941	274,391	140,609
Total deferred inflows of resources	<u>1,269,096</u>	<u>1,139,770</u>	<u>76,513</u>	<u>47,941</u>	<u>1,345,609</u>	<u>1,187,711</u>
Net position:						
Net investment in capital assets	118,237,342	114,740,582	48,193,049	47,210,407	166,430,391	161,950,989
Restricted for:						
Unclaimed monies	-	850	-	-	-	850
Capital projects	69,295	2,787,674	-	-	69,295	2,787,674
Debt service	117,528	306,194	-	-	117,528	306,194
Other purposes	3,576,754	2,800,831	-	-	3,576,754	2,800,831
Unrestricted	2,863,824	7,277,224	(371,756)	(192,509)	2,492,068	7,084,715
Total net position	<u>\$ 124,864,743</u>	<u>\$ 127,913,355</u>	<u>\$ 47,821,293</u>	<u>\$ 47,017,898</u>	<u>\$ 172,686,036</u>	<u>\$ 174,931,253</u>

The net pension liability (NPL) is the largest liability reported by the City at December 31, 2016 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. 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 NPL to the reported net position and subtracting deferred outflows related to pension and the net pension asset.

GASB 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 NPL. 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.

The NPL under GASB 68 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

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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 *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 NPL. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the NPL, 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 NPL 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 the accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s change in NPL not accounted for as deferred outflows/inflows.

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

The largest portion (96.38%) of the City’s net position reflects its net investment in capital assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2016, was \$166,430,391. Although the City’s investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets cannot be used to liquidate these liabilities.

An additional portion of the City’s net position (2.18%) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net position \$2,492,068 may be used to meet the City’s ongoing obligations to citizens and creditors.

Total net position of the City decreased \$2,245,217. The following factors were primarily responsible for this decrease:

- A decrease in cash and cash equivalents of \$4,874,998
- An increase in capital assets, net of \$4,398,495.
- An increase in deferred outflows of resources – pension of \$5,330,185
- An increase in net pension liability of \$6,865,640
- An increase in deferred inflows of resources of \$157,898

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

The net position of business-type activities increased by 1.71% in 2016. The City generally can only use the net position to finance the continuing operations of the sewer system, fitness center, golf course, and community theater operations.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year in comparison to 2015.

Table 2
Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 2,790,245	\$ 2,692,586	\$ 5,808,102	\$ 5,561,198	\$ 8,598,347	\$ 8,253,784
Operating grants and contributions	53,915	30,364	-	-	53,915	30,364
Capital grants and contributions	2,691,738	4,554,217	-	453,667	2,691,738	5,007,884
Total program revenue	<u>5,535,898</u>	<u>7,277,167</u>	<u>5,808,102</u>	<u>6,014,865</u>	<u>11,344,000</u>	<u>13,292,032</u>
General revenues:						
Property and other local taxes	1,220,369	1,303,837	-	-	1,220,369	1,303,837
Municipal income taxes	20,969,489	21,404,750	-	-	20,969,489	21,404,750
Grants and entitlements (not restricted to specific programs)	1,496,357	2,038,693	-	-	1,496,357	2,038,693
Investment income	180,075	56,943	-	-	180,075	56,943
Gain on sale of assets	20,496	-	-	-	20,496	-
Miscellaneous income	146,622	103,447	-	-	146,622	103,447
Total general revenues	<u>24,033,408</u>	<u>24,907,670</u>	<u>-</u>	<u>-</u>	<u>24,033,408</u>	<u>24,907,670</u>
Total revenues	<u>29,569,306</u>	<u>32,184,837</u>	<u>5,808,102</u>	<u>6,014,865</u>	<u>35,377,408</u>	<u>38,199,702</u>
Program expenses:						
General government	6,307,981	5,299,937	-	-	6,307,981	5,299,937
Security of persons and property	11,498,555	9,916,169	-	-	11,498,555	9,916,169
Public health and welfare	208,164	208,833	-	-	208,164	208,833
Transportation	8,099,317	8,891,060	-	-	8,099,317	8,891,060
Leisure time activities	1,637,768	2,553,121	-	-	1,637,768	2,553,121
Community development	2,252,246	1,636,063	-	-	2,252,246	1,636,063
Basic utility services	22,114	13,226	-	-	22,114	13,226
Interest and fiscal charges	287,995	315,976	-	-	287,995	315,976
Sewer	-	-	3,648,338	4,451,137	3,648,338	4,451,137
Fitness center	-	-	2,241,685	1,858,224	2,241,685	1,858,224
Golf course	-	-	1,381,674	1,554,474	1,381,674	1,554,474
Other business-type activities	-	-	36,788	38,257	36,788	38,257
Total program expenses	<u>30,314,140</u>	<u>28,834,385</u>	<u>7,308,485</u>	<u>7,902,092</u>	<u>37,622,625</u>	<u>36,736,477</u>
(Decrease) increase in net position before transfers	(744,834)	3,350,452	(1,500,383)	(1,887,227)	(2,245,217)	1,463,225
Transfers	(2,303,778)	(2,751,552)	2,303,778	2,751,552	-	-
Change in net position	(3,048,612)	598,900	803,395	864,325	(2,245,217)	1,463,225
Net position, beginning of the year	<u>127,913,355</u>	<u>127,314,455</u>	<u>47,017,898</u>	<u>46,153,573</u>	<u>174,931,253</u>	<u>173,468,028</u>
Net position, end of the year	<u>\$ 124,864,743</u>	<u>\$ 127,913,355</u>	<u>\$ 47,821,293</u>	<u>\$ 47,017,898</u>	<u>\$ 172,686,036</u>	<u>\$ 174,931,253</u>

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Governmental Activities

Several revenue sources fund our governmental activities with the City municipal income tax being the largest contributor. The City's municipal income tax rate is 2.00%. Residents of the City who work in another municipality and pay the withholding tax for that municipality will receive a 100% tax credit on up to 2.00% for municipal income taxes paid to their workplace municipality. During 2016, the revenues generated from municipal income tax collections amounted to \$20,969,489. The City continues to enforce a delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Security of persons and property, transportation, community development and general government are the major activities of the City generating 92.89% of the governmental expenses. Security of persons and property includes the cost of providing police, dispatch, fire and paramedic services. Techniques such as defensive and emergency vehicle operations training, EMS continuing education classes, technical skills evaluation, practical drills, and on-line education help keep the men and women updated to perform their jobs most efficiently. The total cost of operating the fire and EMS department during 2016 was \$3,831,734 within the general fund. During 2016, the total cost of operating the police department was \$3,607,072 within the general fund. Both the police and fire departments place strong emphasis on the training of their employees in order to keep up with the rapidly changing laws, practices and technology.

General government expense accounted for \$6,307,981, or 20.81%, of the governmental expenses. Expenses for this program increased \$1,008,044 compared to 2015. The increase in expense is due to a combined increase in health care and workers compensation expenditures, increased economic development reimbursement expenditures, and increases in repairs and maintenance expenditures that did not meet capitalization threshold during the current year.

Business-Type Activities

The business-type activities of the City, which include the City's sewer system, fitness center, golf course and community theater operations, increased the City's net position by \$803,395.

Program expenses exceeded program revenues in the amount of \$177,284 for the sewer system for 2016.

Program expenses exceeded program revenue in the amount of \$846,451 for the fitness center operations for 2016.

Program expenses exceeded program revenue in the amount of \$480,183 for the golf course operations for 2016.

Program revenues exceeded program expenses in the amount of \$3,535 for the other business-type activity operations for 2016.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$35,894,782 and expenditures and other financing uses of \$40,262,461.

The net change in fund balance for the year was most significant in the general fund showing a decrease in fund balance of \$4,894,955 in 2016 which decreases the beginning fund balance of \$21,918,526 to \$17,023,571. The street, construction, repair and maintenance fund reflected an increase of \$735,596. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. City Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held City Council meeting, which is open to the public; the budget is adopted by City Council. City Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the general fund, final budget basis revenue, excluding other financing sources was \$3,793,925 less than the original budget estimates of \$26,581,112. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The final appropriations of \$26,195,706, excluding other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$22,503,376. The final budget of expenditures, excluding other financing uses, increased \$97,694 from the original budget.

The City's ending unobligated budgetary fund balance was \$4,192,022 higher than the final budgeted amount.

Business-Type Funds

The City's major enterprise funds consist of the sewer fund, fitness center fund, and golf course fund. The basic financial statements for the major funds are included in this report.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer, fitness center, and golf course. The basic proprietary fund financial statements can be found on pages 28 through 31 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016, the City of Twinsburg had \$178,631,406, invested in land and land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure, net of accumulated depreciation.

Table 3 shows fiscal 2016 balances of capital assets as compared to the 2015 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Construction in progress	\$ 2,270,248	\$ -	\$ 1,155,021	\$ 1,047,947	\$ 3,425,269	\$ 1,047,947
Land and land improvements	27,166,492	26,834,607	5,808,187	4,545,532	32,974,679	31,380,139
Buildings and improvements	10,490,176	10,318,101	24,677,156	24,331,134	35,167,332	34,649,235
Machinery and equipment	6,386,734	6,148,040	4,344,767	4,247,021	10,731,501	10,395,061
Vehicles	7,720,152	7,466,334	787,616	787,616	8,507,768	8,253,950
Infrastructure:						
Roads	61,164,157	60,152,054	-	-	61,164,157	60,152,054
Water mains	35,143,577	34,581,130	-	-	35,143,577	34,581,130
Storm sewers and culverts	38,435,298	37,864,363	-	-	38,435,298	37,864,363
Traffic signs and signals	1,652,928	1,551,851	-	-	1,652,928	1,551,851
Street lights	1,778,623	1,705,976	-	-	1,778,623	1,705,976
Sewer lines	-	-	34,657,346	34,380,915	34,657,346	34,380,915

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

Table 3
Capital Assets at December 31 (continued)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Less: Accumulated depreciation	(62,070,141)	(59,931,751)	(22,936,931)	(21,797,959)	(85,007,072)	(81,729,710)
Total capital assets	\$ <u>130,138,244</u>	\$ <u>126,690,705</u>	\$ <u>48,493,162</u>	\$ <u>47,542,206</u>	\$ <u>178,631,406</u>	\$ <u>174,232,911</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement time-table is followed to provide peak performance for the maximum time frame. Vehicles no longer in service are either traded in or sold at an auction or online.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from City Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is funded by the capital improvement fund of the City. Additional information concerning the City's capital assets can be found in the Note 10 to the financial statements.

Debt

At December 31, 2016, the City of Twinsburg had \$42,852,926 in outstanding debt, compensated absences, claims payable and net pension liability, of which \$6,189,634 was in general obligation bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 6,189,634	\$ 7,386,560	-	-	\$ 6,189,634	\$ 7,386,560
Special assessment bonds	134,000	152,000	-	-	134,000	152,000
Energy equipment loan payable	-	54,271	-	-	-	54,271
Snow plow vehicle loan payable	172,648	341,299	-	-	172,648	341,299
OPWC loans payable	5,215,413	4,403,977	278,017	288,178	5,493,430	4,692,155
Capital leases payable	587,442	-	22,096	43,621	609,538	43,621
Claims payable	77,072	-	-	-	77,072	-
Net pension liability	24,166,711	18,406,553	3,700,643	2,595,161	27,867,354	21,001,714
Accrued compensated absences	1,951,377	1,870,272	357,873	308,897	2,309,250	2,179,169
Total	\$ <u>38,494,297</u>	\$ <u>32,614,932</u>	\$ <u>4,358,629</u>	\$ <u>3,235,857</u>	\$ <u>42,852,926</u>	\$ <u>35,850,789</u>

General obligation bonds are composed of park land and conservation, senior citizens center, golf course and road improvements. The special assessment bonds consist of the taxpayer portion of water, sewer, and road improvements. The energy equipment loan is composed of equipment purchased for energy conservation. The snow plow vehicle loan is composed of vehicles purchased to provide residents with snow plow services. The OPWC loans are composed of road improvements.

Other obligations include accrued compensated absences and operating and capital lease obligations. Additional information concerning the City's debt can be found in Notes 11 and 12 to the financial statements.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

2016 Economic and Community Development Accomplishments

2016 was a very good year for the City of Twinsburg. The regional and national economy grew steadily throughout the year. Existing companies, which are the backbone of our local economy, benefitted from this economic growth. New industrial development and new housing starts set a positive outcome for the year and a positive outlook for 2017. A growing tax base, including expanding companies and new buildings, is bolstering property tax valuation and income tax receipts.

Local Company Job Growth

Local companies like Envision Rx continue their strong growth illustrating their multiple year staying power on the Inc. 500 List of Fastest Growing Companies. This company is currently seeking to fill several employment positions within its six affiliated companies. With headquarters in Twinsburg, most vacancies are to be employed here.

Existing companies which recently expanded local employment or added new building space include the following:

- Envision Rx
- Western Reserve Wire Products
- Goddard School
- Keltech Technolab
- General Die Casters

New Buildings and Cornerstone Business Park

Outside of Cornerstone Business Park new buildings have been constructed for the following:

- Mirka Abrasives – 2375 Edison Blvd.
- Maplewood of Twinsburg (memory care) – 2463 Sussex Blvd.
- Dunkin Donuts – 2561 E. Aurora Road

Cornerstone Business Park continues to gain momentum. FedEx is now operational in their new 303,000 square foot facility. A 200,000 square foot multi-tenant industrial building in Cornerstone Business Park, which was completed in early 2016, now is 70% occupied by TTW (a tire distributor), Berlin Packaging (a packaging company), and NDCP (a regional logistics support center for Dunkin Donuts). In addition, a 248,000 square foot building has been completed and is now occupied by Amazon as a sorting center. These buildings join the previously constructed Vistar building, bringing the total new building space at Cornerstone Business Park to over 900,000 square foot. Total investment in building improvements at Cornerstone stands at approximately \$58,320,000 (Vistar - \$7,820,000; Amazon - \$13,400,000; Spec. building w/NDCP - \$9,300,000; FedEx - \$27,800,000). Cornerstone Business Park is now the home to more than 740 new full-time and part-time jobs. Approximately 45% of the park is yet to be developed.

New Home Construction

New home construction in Twinsburg is active with 50 new homes constructed in 2016. Lots are available in the following three subdivisions.

- Boulder Brook subdivision off Darrow Road is a 28-lot development with new homes by Ryan Homes.
- Pulte Homes is completing the last phase of Corbett's Farm at Glenwood Drive. This final phase includes 26 lots
- Fox Hollow subdivision off Ravenna Road at Whitewood Drive. Ryan Homes is constructing 24 homes on lots in this subdivision.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

New Businesses

Businesses receiving first time occupancy permits in the City include the following:

- Real Estate Solutions – 1869 E. Aurora Road – Suite 100-600
- Play it Again Sports – 8870 Darrow Road – Units F101-107
- L & M Processing – 1900 Case Parkway South
- V's House of Horsepower – 2071 Midway Drive
- Finest Auto Wholesale – 2067 E. Aurora Road
- Crossfit Soal – 2130 E. Aurora Road
- New World Mugs – 2249 Enterprise Parkway East
- Model Uniforms – 2450 Edison Drive
- Starz Ballroom – 2700 E. Aurora Road
- Zaiqa Indian Food – 7995 Darrow Road – Units 1-10
- Berlin Packaging – 8794 Independence Pkwy. – Suite 175
- Rainbow Pediatrics – 8900 Darrow Road – H101-H112
- Integrity Home Health Care of Hudson – 9261 Darrow Road – Suite B-7
- Clinch Tite – 9300 Dutton Drive
- Aptive Environmental – 9345 Ravenna Road – Suite H
- Destiny Holdings – 9550 Ravenna Road
- Indian Taste – 9700 Ravenna Road
- Kids to Kids – 9783 Ravenna Road
- Let's Paint It – 9945 Vail Drive – Suite 1-4
- Handels Ice Cream (re-opening) – 10735 Ravenna Road

Current Related Financial Activities

The City of Twinsburg, in the past, faced some challenging financial years; however with the development of the Cornerstone Project and the addition of several new businesses in the City, we have begun to see growth in employment. As the economy continues to improve we expect to see increased employment and increased income tax revenue. On a cash basis, the municipal income tax revenue represents 86% of the City's total general fund revenue. The net income tax collections (gross collections less refunds) for 2016 were \$20,739,171 compared to 2015 collections of \$19,651,388. This reflects an increase over last year of 6%.

The City continues to strive to operate lean and under budget. Just as in 2015, the city was awarded several grants to help support the cost of major capital projects and as a result; once again the City was able to end the year strong. The City will continue to make every effort to build up the reserves while operating lean and efficient while holding at the income tax rate of 2% at this time.

The City's current credit rating assigned by Moody's still holds at Aa2. The Aa2 rating was reaffirmed in March of 2011 due to the demonstrations of financial stability and the ability to capitalize on development opportunities. The City's system of budgeting and internal controls is well regarded. As a continued effort to stay above the economic challenges, the Administration and City Council meet frequently to discuss current operating conditions, the economy and community development. The City will continue to be proactive by strategizing to maintain solvency not just for today, but for the future.

Contacting the City of Twinsburg's Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Karen Howse, City of Twinsburg, 10075 Ravenna Road, Twinsburg, Ohio 44087, telephone (330) 425-7161, or web site at my.twinsburg.com.

City of Twinsburg, Ohio

Statement of Net Position

December 31, 2016

	Governmental Activities	Business- Type Activities	Total	Component Unit Twinsburg Community Improvement Corporation
Assets:				
Equity in pooled cash and cash equivalents	\$ 20,712,037	\$ 1,837,454	\$ 22,549,491	\$ -
Cash held as fiscal agent	-	-	-	76,021
Restricted cash	193,854	-	193,854	-
Accounts receivable	220,452	646,712	867,164	-
Accrued interest receivable	34,053	-	34,053	-
Intergovernmental receivable	596,190	-	596,190	-
Municipal income taxes receivable	5,645,120	-	5,645,120	-
Property taxes receivable	1,123,249	-	1,123,249	-
Contribution receivable	-	-	-	93,414
Special assessments receivable	1,376	26,151	27,527	-
Prepaid insurance	-	-	-	1,054
Materials and supplies inventory	179,419	148,622	328,041	-
Land for investment/sale	-	-	-	475,078
Nondepreciable capital assets	25,836,445	3,836,171	29,672,616	-
Depreciable capital assets, net	104,301,799	44,656,991	148,958,790	-
Net pension asset	20,236	10,290	30,526	-
Total assets	<u>158,864,230</u>	<u>51,162,391</u>	<u>210,026,621</u>	<u>645,567</u>
Deferred outflows of resources:				
Deferred charges on refunding	106,583	-	106,583	-
Pensions	6,996,779	1,445,147	8,441,926	-
Total deferred outflows of resources	<u>7,103,362</u>	<u>1,445,147</u>	<u>8,548,509</u>	<u>-</u>
Liabilities:				
Accounts payable	468,065	21,393	489,458	-
Accrued wages and benefits	301,912	58,104	360,016	-
Intergovernmental payable	381,960	97,602	479,562	-
Claims payable	153,373	53,713	207,086	-
Accrued interest payable	34,146	391	34,537	-
Unearned revenue	-	119,900	119,900	-
Long-term liabilities:				
Due within one year	2,152,904	176,982	2,329,886	-
Due in more than one year:				
Other amounts due in more than one year	12,174,682	481,004	12,655,686	-
Net pension liability	24,166,711	3,700,643	27,867,354	-
Total liabilities	<u>39,833,753</u>	<u>4,709,732</u>	<u>44,543,485</u>	<u>-</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Net Position (continued)

December 31, 2016

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Component Unit Twinsburg Community Improvement Corporation</u>
Deferred inflows of resources:				
Property taxes	1,071,218	-	1,071,218	-
Pensions	197,878	76,513	274,391	-
Total deferred inflows of resources	<u>1,269,096</u>	<u>76,513</u>	<u>1,345,609</u>	<u>-</u>
Net position:				
Net investment in capital assets	118,237,342	48,193,049	166,430,391	-
Restricted for:				
Capital projects	69,295	-	69,295	-
Debt service	117,528	-	117,528	-
Other purposes	3,576,754	-	3,576,754	-
Unrestricted	2,863,824	(371,756)	2,492,068	645,567
Total net position	\$ <u>124,864,743</u>	\$ <u>47,821,293</u>	\$ <u>172,686,036</u>	\$ <u>645,567</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Activities

For the Year Ended December 31, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 6,307,981	\$ 1,210,493	\$ -	\$ 23,914
Security of persons and property	11,498,555	521,358	53,915	-
Public health and welfare	208,164	-	-	-
Transportation	8,099,317	-	-	-
Leisure time activities	1,637,768	394,501	-	-
Community development	2,252,246	663,893	-	2,667,824
Basic utility service	22,114	-	-	-
Interest and fiscal charges	287,995	-	-	-
Total governmental activities	<u>30,314,140</u>	<u>2,790,245</u>	<u>53,915</u>	<u>2,691,738</u>
Business-type activities:				
Sewer	3,648,338	3,471,054	-	-
Fitness center	2,241,685	1,395,234	-	-
Golf course	1,381,674	901,491	-	-
Community theater	36,788	40,323	-	-
Total business-type activities	<u>7,308,485</u>	<u>5,808,102</u>	<u>-</u>	<u>-</u>
Total	\$ <u>37,622,625</u>	\$ <u>8,598,347</u>	\$ <u>53,915</u>	\$ <u>2,691,738</u>
Component unit:				
Twinsburg Community Improvement Corporation	\$ <u>20,300</u>	\$ <u>11,098</u>	\$ <u>93,414</u>	\$ <u>-</u>

General revenues:
 Property and other local taxes levied for:
 General purposes
 Debt service
 Municipal income taxes levied for:
 General purposes
 Grants and entitlements not restricted to
 specific programs
 Investment income
 Miscellaneous income
 Gain on sale of assets
 Transfers

Total general revenues and transfers

Change in net position

Net position beginning of year

Net position end of year

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Total	Twinsburg Community Improvement Corporation
\$ (5,073,574)	\$ -	\$ (5,073,574)	\$ -
(10,923,282)	-	(10,923,282)	-
(208,164)	-	(208,164)	-
(8,099,317)	-	(8,099,317)	-
(1,243,267)	-	(1,243,267)	-
1,079,471	-	1,079,471	-
(22,114)	-	(22,114)	-
(287,995)	-	(287,995)	-
<u>(24,778,242)</u>	<u>-</u>	<u>(24,778,242)</u>	<u>-</u>
-	(177,284)	(177,284)	-
-	(846,451)	(846,451)	-
-	(480,183)	(480,183)	-
-	3,535	3,535	-
-	(1,500,383)	(1,500,383)	-
<u>(24,778,242)</u>	<u>(1,500,383)</u>	<u>(26,278,625)</u>	<u>-</u>
-	-	-	<u>84,212</u>
471,420	-	471,420	-
748,949	-	748,949	-
20,969,489	-	20,969,489	-
1,496,357	-	1,496,357	-
180,075	-	180,075	-
146,622	-	146,622	-
20,496	-	20,496	-
<u>(2,303,778)</u>	<u>2,303,778</u>	<u>-</u>	<u>810</u>
<u>21,729,630</u>	<u>2,303,778</u>	<u>24,033,408</u>	<u>810</u>
(3,048,612)	803,395	(2,245,217)	85,022
<u>127,913,355</u>	<u>47,017,898</u>	<u>174,931,253</u>	<u>560,545</u>
\$ <u>124,864,743</u>	\$ <u>47,821,293</u>	\$ <u>172,686,036</u>	\$ <u>645,567</u>

City of Twinsburg, Ohio

Balance Sheet Governmental Funds

December 31, 2016

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 14,056,218	\$ 2,373,126
Restricted cash	581	-
Accounts receivable	210,402	-
Accrued interest receivable	34,053	-
Intergovernmental receivable	138,880	314,129
Municipal income taxes receivable	5,645,120	-
Property taxes receivable	-	-
Special assessment receivable	1,376	-
Materials and supplies inventory	<u>179,419</u>	<u>-</u>
 Total assets	 \$ <u>20,266,049</u>	 \$ <u>2,687,255</u>
Liabilities, deferred inflows of resources and fund balances:		
Liabilities:		
Accounts payable	\$ 156,305	\$ 260,540
Accrued wages and benefits	172,798	-
Intergovernmental payable	251,355	-
Claims payable	<u>153,373</u>	<u>-</u>
Total liabilities	<u>733,831</u>	<u>260,540</u>
Deferred inflows of resources:		
Property taxes	-	-
Unavailable revenue	<u>2,508,647</u>	<u>207,989</u>
Total deferred inflows of resources	<u>2,508,647</u>	<u>207,989</u>
Fund balances (deficit):		
Nonspendable	180,000	-
Restricted	-	2,218,726
Committed	-	-
Assigned	9,656,106	-
Unassigned	<u>7,187,465</u>	<u>-</u>
Total fund balances (deficit)	<u>17,023,571</u>	<u>2,218,726</u>
 Total liabilities, deferred inflows of resources, and fund balances	 \$ <u>20,266,049</u>	 \$ <u>2,687,255</u>

The accompanying notes are an integral part of the financial statements.

<u>Park Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 49,739	\$ 2,486,532	\$ 1,746,422	\$ 20,712,037
-	-	193,273	193,854
-	10,050	-	220,452
-	-	-	34,053
42,337	25,000	75,844	596,190
-	-	-	5,645,120
794,495	-	328,754	1,123,249
-	-	-	1,376
-	-	-	179,419
<u>\$ 886,571</u>	<u>\$ 2,521,582</u>	<u>\$ 2,344,293</u>	<u>\$ 28,705,750</u>
\$ -	\$ 40,204	\$ 11,016	\$ 468,065
-	-	129,114	301,912
-	-	130,605	381,960
-	-	-	153,373
<u>-</u>	<u>40,204</u>	<u>270,735</u>	<u>1,305,310</u>
757,692	-	313,526	1,071,218
<u>79,140</u>	<u>-</u>	<u>49,612</u>	<u>2,845,388</u>
<u>836,832</u>	<u>-</u>	<u>363,138</u>	<u>3,916,606</u>
-	-	-	180,000
49,739	6,250	1,186,096	3,460,811
-	-	594,426	594,426
-	2,475,128	-	12,131,234
-	-	(70,102)	7,117,363
<u>49,739</u>	<u>2,481,378</u>	<u>1,710,420</u>	<u>23,483,834</u>
<u>\$ 886,571</u>	<u>\$ 2,521,582</u>	<u>\$ 2,344,293</u>	<u>\$ 28,705,750</u>

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City of Twinsburg, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities

December 31, 2016

Total governmental fund balances \$ 23,483,834

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 130,138,244

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

Property and other taxes	\$ 52,031	
Municipal income taxes	2,238,401	
Special assessments	1,376	
Charges for services	152,926	
Investment income	34,028	
Intergovernmental	<u>366,626</u>	
Total		2,845,388

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (34,146)

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

General obligation bonds	(6,189,634)	
Special assessment bonds	(134,000)	
Snow plow vehicle loan payable	(172,648)	
OPWC loan payable	(5,215,413)	
Leases payable	(587,442)	
Claims payable	(77,072)	
Accrued compensated absences	<u>(1,951,377)</u>	
Total		(14,327,586)

Deferred charges on refunding related to the issuance of long-term refunding debt that will be amortized over the life of the debt on the statement of net position. 106,583

The net pension asset / liability are not due and receivable / payable in the current period; therefore, the asset / liability and related deferred outflows / inflows are not reported in governmental funds.

Net pension asset	20,236	
Deferred outflows of resources - pension	6,996,779	
Net pension liability	(24,166,711)	
Deferred inflows of resources - pension	<u>(197,878)</u>	
Total		<u>(17,347,574)</u>

Net position of governmental activities \$ 124,864,743

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended December 31, 2016

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>
Revenues:		
Property and other taxes	\$ -	\$ -
Municipal income tax	21,433,481	-
Other local taxes	186,991	-
Intergovernmental	349,564	874,956
Charges for services	1,331,339	-
License and permits	468,043	-
Fines and forfeitures	107,523	-
Investment income	145,645	-
Miscellaneous income	<u>780,862</u>	<u>-</u>
Total revenues	<u>24,803,448</u>	<u>874,956</u>
Expenditures:		
Current operations and maintenance:		
General government	6,152,164	-
Security of persons and property	8,238,747	-
Public health and welfare	208,164	-
Transportation	4,919,624	3,382,181
Leisure time activities	989,268	-
Community development	1,377,460	-
Basic utility service	108,636	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>
Total expenditures	<u>21,994,063</u>	<u>3,382,181</u>
Excess of revenues over (under) expenditures	<u>2,809,385</u>	<u>(2,507,225)</u>
Other financing sources (uses):		
OPWC loan proceeds	173,182	767,829
Inception of capital lease	-	-
Transfers – in	-	2,474,992
Transfers – out	<u>(7,877,522)</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,704,340)</u>	<u>3,242,821</u>
Net change in fund balances	(4,894,955)	735,596
Fund balance beginning of year	<u>21,918,526</u>	<u>1,483,130</u>
Fund balance end of year	\$ <u><u>17,023,571</u></u>	\$ <u><u>2,218,726</u></u>

The accompanying notes are an integral part of the financial statements.

<u>Park Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 748,949	\$ -	\$ 309,909	\$ 1,058,858
-	-	-	21,433,481
-	-	-	186,991
84,678	99,958	803,793	2,212,949
-	-	18,669	1,350,008
-	-	-	468,043
-	-	-	107,523
-	-	402	146,047
-	91,680	34,366	906,908
<u>833,627</u>	<u>191,638</u>	<u>1,167,139</u>	<u>27,870,808</u>
-	-	9,124	6,161,288
-	-	1,389,337	9,628,084
-	-	-	208,164
-	-	185,357	8,487,162
-	-	156,607	1,145,875
-	-	182,945	1,560,405
-	-	20,271	128,907
-	2,931,248	294,277	3,225,525
670,000	168,651	686,846	1,525,497
176,359	8,089	119,423	303,871
<u>846,359</u>	<u>3,107,988</u>	<u>3,044,187</u>	<u>32,374,778</u>
<u>(12,732)</u>	<u>(2,916,350)</u>	<u>(1,877,048)</u>	<u>(4,503,970)</u>
-	-	-	941,011
-	587,442	-	587,442
-	2,028,147	1,992,382	6,495,521
-	-	(10,161)	(7,887,683)
-	<u>2,615,589</u>	<u>1,982,221</u>	<u>136,291</u>
(12,732)	(300,761)	105,173	(4,367,679)
<u>62,471</u>	<u>2,782,139</u>	<u>1,605,247</u>	<u>27,851,513</u>
\$ <u><u>49,739</u></u>	\$ <u><u>2,481,378</u></u>	\$ <u><u>1,710,420</u></u>	\$ <u><u>23,483,834</u></u>

City of Twinsburg, 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 \$ (4,367,679)

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

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

Capital outlay	\$	5,625,874	
Contributed capital – donated assets		2,158,475	
Depreciation		<u>(4,125,652)</u>	3,658,697

In the statement of activities, only the loss on the disposal of property and equipment are reported, whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the property and equipment. (211,158)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property and other local taxes		(25,480)	
Municipal income taxes		(463,992)	
Special assessment		(252)	
Charges for services		11,752	
Investment income		34,028	
Intergovernmental		<u>(38,533)</u>	(482,477)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,525,497

Other financing sources in the governmental funds increase long-term liabilities in the statement of net position.

OPWC loan proceeds		(941,011)	
Capital lease issued		<u>(587,442)</u>	(1,528,453)

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

Accrued compensated absences		(81,105)	
Amortization of premium		41,926	
Amortization of loss on refunding		(21,317)	
Claims payable		(77,072)	
Accrued interest on bonds		<u>(4,733)</u>	(142,301)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 1,899,525

(Continued)

City of Twinsburg, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities (continued)

For the Year Ended December 31, 2016

Except for amounts reported as deferred outflows / inflows, changes in the net pension asset/liability are reported as pension expense in the statement of activities.	<u>(3,400,263)</u>
<i>Change in net position of governmental activities</i>	\$ <u><u>(3,048,612)</u></u>

City of Twinsburg, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

General Fund

For the Year End December 31, 2016

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Municipal income taxes	\$ 22,800,000	\$ 19,500,000	\$ 20,739,171	\$ 1,239,171
Other local taxes	199,649	173,569	186,828	13,259
Intergovernmental	528,318	459,304	494,391	35,087
Charges for services	1,410,790	1,226,499	1,320,193	93,694
License and permits	500,162	434,826	468,043	33,217
Fines and forfeitures	114,902	99,892	107,523	7,631
Investment income	160,310	139,368	150,015	10,647
Other	866,981	753,729	811,307	57,578
Total revenue	<u>26,581,112</u>	<u>22,787,187</u>	<u>24,277,471</u>	<u>1,490,284</u>
Expenditures:				
Current:				
General government	8,747,012	8,791,972	6,561,725	2,230,247
Security of property and persons	8,593,276	8,617,010	8,239,643	377,367
Public health and welfare	215,000	215,000	208,164	6,836
Transportation	5,219,000	5,219,000	4,775,945	443,055
Leisure time activities	1,124,200	1,142,200	990,466	151,734
Community development	2,077,348	2,088,348	1,620,640	467,708
Basic utility services	122,176	122,176	106,793	15,383
Total expenditures	<u>26,098,012</u>	<u>26,195,706</u>	<u>22,503,376</u>	<u>3,692,330</u>
Excess of revenues over (under) expenditures	483,100	(3,408,519)	1,774,095	5,182,614
Other financing uses:				
Transfers – out	<u>(6,886,929)</u>	<u>(6,886,929)</u>	<u>(7,877,521)</u>	<u>(990,592)</u>
Change in fund balance	(6,403,829)	(10,295,448)	(6,103,426)	4,192,022
Prior year encumbrances at year-end	325,152	325,152	325,152	-
Fund balance at the beginning of the year	<u>19,552,971</u>	<u>19,552,971</u>	<u>19,552,971</u>	-
Fund balance at the end of the year	\$ <u>13,474,294</u>	\$ <u>9,582,675</u>	\$ <u>13,774,697</u>	\$ <u>4,192,022</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

Street, Construction, Maintenance and Repair Fund

For the Year End December 31, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 852,000	\$ 1,344,078	\$ 1,812,821	\$ 468,743
Expenditures:				
Current:				
Transportation	3,842,456	4,067,456	3,742,355	325,101
Excess of revenues under expenditures	(2,990,456)	(2,723,378)	(1,929,534)	793,844
Other financing sources:				
Transfers – in	5,500,000	2,474,922	2,474,992	70
Change in fund balance	2,509,544	(248,456)	545,458	793,914
Prior year encumbrances at year-end	377,456	377,456	377,456	-
Fund balance at the beginning of the year	896,843	896,843	896,843	-
Fund balance at the end of the year	\$ 3,783,843	\$ 1,025,843	\$ 1,819,757	\$ 793,914

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2016

	Business-Type Activities				Total
	Sewer	Fitness Center	Golf Course	Other Business-Type	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 1,404,614	\$ 259,002	\$ 75,093	\$ 98,745	\$ 1,837,454
Accounts receivable	646,712	-	-	-	646,712
Special assessments receivable	26,151	-	-	-	26,151
Materials and supplies inventory	119,598	-	29,024	-	148,622
Total current assets	<u>2,197,075</u>	<u>259,002</u>	<u>104,117</u>	<u>98,745</u>	<u>2,658,939</u>
Non-current assets:					
Nondepreciable capital assets	581,150	10,932	3,244,089	-	3,836,171
Depreciable capital assets, net	32,975,445	8,354,155	3,327,391	-	44,656,991
Net pension asset	5,184	3,380	1,726	-	10,290
Total non-current assets	<u>33,561,779</u>	<u>8,368,467</u>	<u>6,573,206</u>	<u>-</u>	<u>48,503,452</u>
Total assets	<u>35,758,854</u>	<u>8,627,469</u>	<u>6,677,323</u>	<u>98,745</u>	<u>51,162,391</u>
Deferred outflows of resources:					
Pension	<u>727,987</u>	<u>474,806</u>	<u>242,354</u>	<u>-</u>	<u>1,445,147</u>
Liabilities:					
Current liabilities:					
Accounts payable	14,295	1,423	5,675	-	21,393
Accrued wages and benefits	58,104	-	-	-	58,104
Intergovernmental payable	44,645	52,684	273	-	97,602
Claims payable	34,833	8,335	10,545	-	53,713
Accrued interest payable	-	-	391	-	391
Unearned revenue	-	119,900	-	-	119,900
Due within one year	<u>107,870</u>	<u>19,869</u>	<u>49,243</u>	<u>-</u>	<u>176,982</u>
Total current liabilities	<u>259,747</u>	<u>202,211</u>	<u>66,127</u>	<u>-</u>	<u>528,085</u>
Long-term liabilities (net of current portion):					
Loan payable	267,856	-	-	-	267,856
Compensated absences	131,597	41,758	39,793	-	213,148
Net pension liability	<u>1,864,184</u>	<u>1,215,853</u>	<u>620,606</u>	<u>-</u>	<u>3,700,643</u>
Total long-term liabilities	<u>2,263,637</u>	<u>1,257,611</u>	<u>660,399</u>	<u>-</u>	<u>4,181,647</u>
Total liabilities	<u>2,523,384</u>	<u>1,459,822</u>	<u>726,526</u>	<u>-</u>	<u>4,709,732</u>
Deferred inflows of resources:					
Pension	<u>38,543</u>	<u>25,139</u>	<u>12,831</u>	<u>-</u>	<u>76,513</u>
Net position:					
Net investment in capital assets	33,278,578	8,365,087	6,549,384	-	48,193,049
Unrestricted (deficit)	<u>646,336</u>	<u>(747,773)</u>	<u>(369,064)</u>	<u>98,745</u>	<u>(371,756)</u>
Total net position	<u>\$ 33,924,914</u>	<u>\$ 7,617,314</u>	<u>\$ 6,180,320</u>	<u>\$ 98,745</u>	<u>\$ 47,821,293</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds

For the Year Ended December 31, 2016

	Business-Type Activities				Total
	Sewer	Fitness Center	Golf Course	Other Business-Type	
Operating revenues:					
Charges for services	\$ 3,471,054	\$ 1,382,823	\$ 901,491	\$ 30,131	\$ 5,785,499
Miscellaneous income	-	12,411	-	10,192	22,603
Total operating revenues	<u>3,471,054</u>	<u>1,395,234</u>	<u>901,491</u>	<u>40,323</u>	<u>5,808,102</u>
Operating expenses:					
Personal services	2,226,809	1,349,920	708,220	-	4,284,949
Materials and supplies	237,230	168,699	252,307	26,928	685,164
Contractual services	379,064	409,029	320,182	9,860	1,118,135
Depreciation	805,235	314,037	100,189	-	1,219,461
Total operating expenses	<u>3,648,338</u>	<u>2,241,685</u>	<u>1,380,898</u>	<u>36,788</u>	<u>7,307,709</u>
Operating (loss) income	<u>(177,284)</u>	<u>(846,451)</u>	<u>(479,407)</u>	<u>3,535</u>	<u>(1,499,607)</u>
Non-operating expenses:					
Interest and fiscal charges	-	-	(776)	-	(776)
Total non-operating expenses	<u>-</u>	<u>-</u>	<u>(776)</u>	<u>-</u>	<u>(776)</u>
(Loss) income before transfers and contributed capital	(177,284)	(846,451)	(480,183)	3,535	(1,500,383)
Transfers – in	91,733	926,261	374,168	-	1,392,162
Contributed capital	<u>-</u>	<u>62,684</u>	<u>848,932</u>	<u>-</u>	<u>911,616</u>
Change in net position	(85,551)	142,494	742,917	3,535	803,395
Net position beginning of year	<u>34,010,465</u>	<u>7,474,820</u>	<u>5,437,403</u>	<u>95,210</u>	<u>47,017,898</u>
Net position end of year	\$ <u>33,924,914</u>	\$ <u>7,617,314</u>	\$ <u>6,180,320</u>	\$ <u>98,745</u>	\$ <u>47,821,293</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2016

	Business-Type Activities				Total
	Sewer	Fitness Center	Golf Course	Other Business-Type	
Cash flows from operating activities:					
Cash received from customers	\$ 3,457,425	\$ 1,374,802	\$ 901,491	\$ 30,131	\$ 5,763,849
Cash payments for personal services	(2,097,088)	(1,251,517)	(669,229)	-	(4,017,834)
Cash payments for contractual services	(376,401)	(371,549)	(352,800)	(9,860)	(1,110,610)
Cash payments to vendors for supplies and materials	(220,083)	(169,934)	(257,329)	(30,663)	(678,009)
Cash received for other operating activities	-	12,411	-	10,192	22,603
Net cash provided by (used in) operating activities	<u>763,853</u>	<u>(405,787)</u>	<u>(377,867)</u>	<u>(200)</u>	<u>(20,001)</u>
Cash flows from capital and related financing activities:					
Principal paid on debt maturities	(10,161)	-	-	-	(10,161)
Principal paid on capital lease	-	-	(21,525)	-	(21,525)
Miscellaneous fiscal charges	-	-	(1,156)	-	(1,156)
Acquisition on capital assets	<u>(927,555)</u>	<u>(331,246)</u>	<u>-</u>	<u>-</u>	<u>(1,258,801)</u>
Net cash used in capital and related financing activities	<u>(937,716)</u>	<u>(331,246)</u>	<u>(22,681)</u>	<u>-</u>	<u>(1,291,643)</u>
Cash flows from noncapital financing activities:					
Transfers – in	<u>91,733</u>	<u>926,261</u>	<u>374,168</u>	<u>-</u>	<u>1,392,162</u>
Net cash provided by noncapital financing activities	<u>91,733</u>	<u>926,261</u>	<u>374,168</u>	<u>-</u>	<u>1,392,162</u>
Net (decrease) increase in cash and cash equivalents	(82,130)	189,228	(26,380)	(200)	80,518
Cash and cash equivalents, beginning of year	<u>1,486,744</u>	<u>69,774</u>	<u>101,473</u>	<u>98,945</u>	<u>1,756,936</u>
Cash and cash equivalents, end of year	<u>\$ 1,404,614</u>	<u>\$ 259,002</u>	<u>\$ 75,093</u>	<u>\$ 98,745</u>	<u>\$ 1,837,454</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Cash Flows (Continued)

Proprietary Funds

For the Year Ended December 31, 2016

	Business-Type Activities				
	Sewer	Fitness Center	Golf Course	Other Business-Type	Total
Reconciliation of operating (loss) income to net cash from operating activities:					
Operating (loss) income	\$ <u>(177,284)</u>	\$ <u>(846,451)</u>	\$ <u>(479,407)</u>	\$ <u>3,535</u>	\$ <u>(1,499,607)</u>
Adjustments:					
Depreciation	805,235	314,037	100,189	-	1,219,461
(Increase) decrease in assets and deferred outflows of resources:					
Accounts receivable	(10,899)	-	-	-	(10,899)
Materials and supplies inventory	17,147	-	(5,022)	-	12,125
Special assessments receivable	(2,730)	-	-	-	(2,730)
Net pension asset	(1,192)	(958)	(439)	-	(2,589)
Deferred outflows of resources – pension	(482,159)	(325,613)	(163,135)	-	(970,907)
Increase (decrease) in liabilities and deferred inflows of resources:					
Accounts payable	960	932	(32,618)	(3,735)	(34,461)
Accrued wages and benefits	39,960	-	-	-	39,960
Intergovernmental payable	10,183	36,635	273	-	47,091
Claims payable	2,688	(881)	5,739	-	7,546
Unearned revenue	-	(8,021)	-	-	(8,021)
Accrued compensated absences payable	29,300	15,041	4,635	-	48,976
Net pension liability	518,952	399,435	187,095	-	1,105,482
Deferred inflows of resources – pension	<u>13,692</u>	<u>10,057</u>	<u>4,823</u>	<u>-</u>	<u>28,572</u>
Total adjustments	<u>941,137</u>	<u>440,664</u>	<u>101,540</u>	<u>(3,735)</u>	<u>1,479,606</u>
Net cash provided by (used in) operating activities:	\$ <u><u>763,853</u></u>	\$ <u><u>(405,787)</u></u>	\$ <u><u>(377,867)</u></u>	\$ <u><u>(200)</u></u>	\$ <u><u>(20,001)</u></u>
Noncash capital activities:					
Capital contributions	\$ -	\$ 62,684	\$ 848,932	\$ -	\$ 911,616

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Note 1: The Reporting Entity

The City of Twinsburg (the “City”) is a home rule municipal corporation established under the laws of the State of Ohio, which operates under its own Charter. The current Charter, which provides for a Mayor-Council form of government, was adopted November 3, 1981.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Twinsburg, this includes police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection, a wastewater treatment plant and general administrative services.

The City of Twinsburg is divided into various departments and financial management and control systems. The City departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a parks and recreation department, a planning and zoning department, a waste water treatment system, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process and therefore is included as a part of the reportable 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 deficits of, or provide financial support to, the organization. Component units may 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. Based on this criteria, the City has one component unit.

The Twinsburg Community Improvement Corporation (TCIC) is a not-for-profit corporation to advance, encourage, and promote the industrial, commercial, civic, and economic development of Twinsburg, Ohio, under the applicable sections of the Ohio Revised Code. The City has agreed to provide 50% of the Transient Guest Tax funds the City collects and receives annually to the TCIC. Since this funding represents a significant portion of TCIC revenue, the organization is fiscally dependent on the City and therefore is considered a component unit of the City and is discretely presented in the City’s financial statements. See Note 21 for specific disclosures relating to the TCIC.

Jointly Governed Organizations

Northeast Ohio Public Energy Council – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 134 members in 200 communities in 13 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 1: The Reporting Entity (continued)

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Twinsburg did not contribute to NOPEC during 2016. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

Note 2: Summary of Significant Accounting Policies

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

A. 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. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

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.

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

General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Twinsburg and/or the general laws of Ohio.

Street Construction, Maintenance and Repair Fund – This fund is required by the Ohio Revised Code to account for revenue from the state gasoline tax and motor vehicle registration fees. The Ohio Revised Code requires that 92.50% of these revenues be used for the maintenance and repair of streets within the City.

Park Debt Service Fund – The park debt fund accounts for property taxes levied for the purpose of improving parks and paying off debt associated with maintenance of the parks.

Capital Improvement Fund – The capital improvement fund accounts for resources allocated for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operation of the City.

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

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 has no internal service funds.

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

Sewer Fund – The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Fitness Center Fund – The fitness center fund accounts for the operations of the fitness center.

Golf Course Fund – The golf course fund accounts for the operations of the golf course.

The other business-type funds of the City account for other resources whose use is restricted to a particular purpose.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has no agency funds.

C. Measurement Focus

Government-Wide Financial Statements

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

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 funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows 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. Available period for the City is sixty days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include municipal income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from municipal income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: municipal income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, grants and rentals.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements that report financial position may include a section for deferred outflows of resources. Deferred outflows of resources represent 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. At December 31, 2016, the City had deferred outflows of resources for deferred losses on refunding and pensions reported in the government-wide statement of net position and the proprietary funds statement of fund net position. A deferred loss 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. The deferred outflows of resources related to pension are explained in Note 14.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

In addition to liabilities, the financial statements that report financial position will 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, unavailable revenue and amounts for pension. 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 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 delinquent property taxes, income taxes, special assessments, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and in the proprietary funds on the statement of fund 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.

E. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City. City Council passes appropriations at the line item level except for capital projects funds which are appropriated by department or project. Line item appropriations may be transferred between the accounts with the approval of the City Council. City Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenue and expenditures for all funds is submitted to the County Fiscal Officer, as Secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission find the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2016. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2016.

Annual Estimate

The Mayor, with the assistance of the Finance Director, is required by Charter to submit to City Council, on or before December 1 of each fiscal year, an estimate of the revenues and expenditures of each fund of the City for the next succeeding fiscal year. The annual estimate serves as the basis for appropriations (the appropriated budget) in each fund.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the official amended certificate of estimated resources. Supplemental appropriations may be adopted by City Council action. During the year, several supplemental appropriation measures were necessary. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

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

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from City Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by City Council. City Council appropriations are made to personal services, travel and education, contractual services, supplies and materials, capital outlay, other expenditures, debt principal and interest payments, and transfer accounts for each department. Capital projects funds are appropriated by department or project. The appropriations set by City Council must remain fixed unless amended by City Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within City Council's appropriated amount.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of budgetary control.

On the GAAP basis, encumbrances outstanding at year end are reported as assigned, committed, or restricted fund balances for subsequent-year expenditures for governmental funds.

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 City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts and nonnegotiable certificate of deposits are reported at cost. See Note 5 for specific disclosures relating to investments.

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

For the year ended 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.

Interest allocation is determined by the Ohio Constitution, State statutes, and local ordinances adopted under City Charter. Under these provisions, City funds required to receive interest allocations are: 1) those which receive proceeds from the sale of notes and/or bonds and 2) those which receive distributions of state gasoline tax and motor vehicle licenses fees (street maintenance and state highway special revenue funds). All remaining interest is allocated to the general fund. Legally, proprietary funds generally do not receive interest. Interest revenue credited to the general fund during 2016 amounted to \$145,645.

G. Inventory

Inventories of all funds are stated at cost which is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types and as expenses in the proprietary fund type when used.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

H. 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 by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of enterprise capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5 to 45 years
Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 30 years
Vehicles	10 to 15 years
Infrastructure	18 to 100 years

J. Interfund Balances

On fund financial statements, interfund loans are classified as "interfund receivable/payable" on the balance sheet. Long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset as part of nonspendable fund balance which indicates that they do not constitute available expendable resources. 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.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer 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 that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the City's termination policy. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Payables, Accrued Liabilities and Long-Term Obligations

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

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

M. Net Position

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

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

N. 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 sewer, fitness center, and other proprietary programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

O. Interfund Activity

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

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

P. Deferred Charge on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of various refunding bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Q. Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are received in the year the bonds are issued.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2016.

S. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

T. Capital Contributions

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction and from contributions from governmental funds. During 2016, the fitness center fund and golf course fund received contributions of capital in the amount of \$62,684 and \$848,932, respectively, from governmental activities. Additionally, the City received \$2,158,475 in governmental activities contributed capital donated from outside entities.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

U. Fund Balance

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

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

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

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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

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

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

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.

W. Comparative Data/Reclassifications

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation.

Note 3: Change in Accounting Principles

For the year ended December 31, 2016, the City implemented Governmental Accounting Standards Board (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. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*.

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

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position.

GASB Statement No. 76 identifies in the context of the current governmental financial reporting environment - the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. These changes were incorporated in the City's financial statements. See Note 19 for disclosure.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 3: Change in Accounting Principles (continued)

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 and also establishes additional note disclosure requirements for governments that participate in those pools. The City incorporated the corresponding GASB 79 guidance into their financial statements; however, there was no effect on beginning net position.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position.

Note 4: Budgetary Basis of Accounting

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

The statements of revenues, expenditures, and changes in fund balance – budget (non-GAAP budgetary basis) are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budgetary basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budgetary basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budgetary basis) rather than a restricted, committed, or assigned fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and street construction, maintenance and repair fund.

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>
GAAP basis	\$ (4,894,955)	\$ 735,596
Increase (decrease) due to:		
Revenue accruals	(699,158)	170,036
Expenditure accruals	(202,509)	193,194
Outstanding encumbrances	<u>(306,804)</u>	<u>(553,368)</u>
Budgetary basis	<u>\$ (6,103,426)</u>	<u>\$ 545,458</u>

Note 5: 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.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 5: Deposits and Investments (continued)

Inactive deposits are monies 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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following 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;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 5: Deposits and Investments (continued)

At year-end, the carrying amount of the City's deposits was \$1,447,436 and the bank balance was \$2,976,211. Of the bank balance, \$495,901 was covered by FDIC. The remaining uncovered balance was collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

Investments are reported at fair value. As of December 31, 2016, the City had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	More than 1
Repurchase agreement	\$ 9,140,000	\$ 9,140,000	\$ -
Negotiable certificate of deposits	4,056,322	1,240,746	2,815,576
Federal Home Loan Bank (FHLB)	747,052	-	747,052
Federal National Mortgage Association (FNMA)	729,158	-	729,158
Federal National Mortgage Association Medium Term Note (FNMAMTN)	124,247	-	124,247
Federal Home Loan Mortgage Corporation (FHLMC)	498,115	-	498,115
Federal Home Loan Mortgage Corporation Medium Term Note (FHLMCMTN)	1,644,198	-	1,644,198
STAR Ohio	2,000,000	2,000,000	-
Commercial paper	2,300,154	2,300,154	-
Money market	56,663	56,663	-
Total	\$ 21,295,909	\$ 14,737,563	\$ 6,558,346

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.

The City has the following recurring fair value measurements as of December 31, 2016:

- Negotiable certificates of deposit, FHLB, FNMA, FNMAMTN, FHLMC, and FHLMCMTN are measured based on Level 2 inputs, using a matrix or model pricing method.
- STAR Ohio, Money market and Commercial paper is valued at amortized cost, which approximates fair value.
- Repurchase agreements are valued at cost, which approximates fair value.

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. During 2016, no investments have been purchased with a life greater than five years.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 5: Deposits and Investments (continued)

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The securities underlying the repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that requires securities shall be delivered into the custody of the Finance Director or governing board or an agent designated by the Finance Director or governing board. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The Federal Home Loan Bank bonds, Federal National Mortgage Association bonds, Federal National Mortgage Association Medium Term Note, Federal Home Loan Mortgage Corporation bonds, and Federal Home Loan Mortgage Corporation Medium Term Note all carry a rating of Aaa by Standard & Poor's. The commercial paper carries a rating of P1 by Standard & Poor's. Star Ohio carries a rating AAAM by Standard & Poor's. The negotiable certificate of deposits, repurchase agreement and money market are unrated.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2016:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Repurchase agreement	42.92 %
Negotiable certificates of deposit	19.05
Federal Home Loan Bank	3.51
Federal National Mortgage Association	3.42
Medium Term Note	0.58
Federal Home Loan Mortgage Corporation	2.34
Federal Home Loan Mortgage Corporation	
Medium Term Note	7.72
STAR Ohio	9.39
Commercial paper	10.80
Money market	0.27

Note 6: Receivables

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Real property taxes collected in 2016 are levied after October 1, 2015, on assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. The last reappraisal was completed for tax year 2014 affecting collections beginning in 2015.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Public utility property taxes paid in 2016 that became a lien on December 31, 2015, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 6: Receivables (continued)

A. Property Taxes (continued)

The full tax rate for all City operations for the year ended December 31, 2016, was \$2.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 401,899,770
Commercial/Industrial/Mineral	159,010,910
Public Utilities	34,170
Tangible Personal Property Valuation:	
Public Utilities	<u>10,386,130</u>
Total Valuation	\$ <u><u>571,330,980</u></u>

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

B. Municipal Income Taxes

The City levies and collects a municipal income tax of two percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold municipal income tax on employee earnings and remit the tax to the City at least quarterly.

Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental activities:	
Local government and local government revenue assistance	\$ 128,611
Homestead and rollback	59,856
Miscellaneous	55,979
Gasoline and excise tax and state highway distributions	339,600
Permissive motor vehicle license tax	<u>12,144</u>
Total governmental activities	\$ <u><u>596,190</u></u>

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 7: Accountability

The City had a deficit balance in the following fund at December 31, 2016:

Fire Pension	\$	70,102
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The fire pension fund deficit is the result of the recognition of liabilities in accordance with generally accepted accounting principles.

Note 8: Contingencies/Pending Litigation

The City is a party to various legal proceedings. The City's management is of the opinion that the ultimate outcome of such litigation will not have a material adverse effect on the City's financial position.

Note 9: Risk Management

A. Property and Liability

The City maintains comprehensive insurance coverage with private insurance carriers for real property, building contents, vehicle and general liability insurance, and police professional liability insurance. By maintaining comprehensive insurance coverage with private carriers, the City has addressed these various types of risk. There were no reductions in insurance coverage from the previous year. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Health Insurance Benefits

The City continues to carry health insurance through Medical Mutual of Ohio (Medical Mutual). The City pays a monthly premium from the general fund, sewer fund, Gleneagles golf fund, and fitness center fund for each employee that varies according to which fund the employees' salary is paid. Incurred but not reported claims of \$207,086 have been accrued as a liability at December 31, 2016 based on an estimate by Medical Mutual.

The claims liability of \$207,086 reported in the funds at December 31, 2016, was estimated by reviewing current claims and is based on the requirements of GASB 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 claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

Changes in the fund's claims liability amount were:

		<u>Balance at</u>	<u>Current Year</u>	<u>Claim</u>	<u>Balance at</u>
		<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2016	\$	223,663	\$ 356,936	\$ 373,513	\$ 207,086
2015		259,872	274,897	311,106	223,663

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 9: Risk Management (continued)

C. Workers' Compensation Program

The City is approved for self-insurance status by the Bureau of Workers' Compensation and administers its own workers' compensation program (the program). Liabilities of the fund are reported when an employee injury has occurred, it is probable that a claim will be filed under the program, and the amount of the claim can be reasonably estimated.

The claims liability of \$77,072 reported in governmental activities and is based on the requirements of Governmental Standards Board No. 30, which requires a liability for the unpaid claims costs, including estimates of costs relating to incurred but not report claims, be reported. Changes in the claims liability amount in 2016 and 2015 were as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2016	\$ -	\$ 105,090	\$ 28,018	\$ 77,072
2015	-	68,650	68,650	-

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 10: Capital Assets

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

	Balance <u>12/31/15</u>	Additions	Disposals	Balance <u>12/31/16</u>
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 2,270,248	\$ -	\$ 2,270,248
Land	<u>23,556,397</u>	<u>9,800</u>	<u>-</u>	<u>23,566,197</u>
Total capital assets not being depreciated	<u>23,556,397</u>	<u>2,280,048</u>	<u>-</u>	<u>25,836,445</u>
Capital assets being depreciated:				
Land improvements	3,278,210	322,085	-	3,600,295
Buildings and improvements	10,318,101	172,075	-	10,490,176
Machinery and equipment	6,148,040	310,839	(72,145)	6,386,734
Vehicles	7,466,334	682,872	(429,054)	7,720,152
Infrastructure:				
Roads	60,152,054	2,707,200	(1,695,097)	61,164,157
Water mains	34,581,130	562,447	-	35,143,577
Storm sewers and culverts	37,864,363	570,935	-	38,435,298
Traffic signs and signals	1,551,851	101,077	-	1,652,928
Streetlights	<u>1,705,976</u>	<u>74,771</u>	<u>(2,124)</u>	<u>1,778,623</u>
Total capital assets being depreciated	<u>163,066,059</u>	<u>5,504,301</u>	<u>(2,198,420)</u>	<u>166,371,940</u>
Less accumulated depreciation:				
Land improvements	(1,541,745)	(96,892)	-	(1,638,637)
Buildings and improvements	(4,296,587)	(211,945)	-	(4,508,532)
Machinery and equipment	(4,018,871)	(274,606)	69,287	(4,224,190)
Vehicles	(4,429,651)	(438,831)	343,162	(4,525,320)
Infrastructure:				
Roads	(25,549,431)	(1,986,747)	1,572,689	(25,963,489)
Water mains	(6,799,070)	(352,842)	-	(7,151,912)
Storm sewers and culverts	(11,165,052)	(638,769)	-	(11,803,821)
Traffic signs and signals	(905,702)	(64,153)	-	(969,855)
Streetlights	<u>(1,225,642)</u>	<u>(60,867)</u>	<u>2,124</u>	<u>(1,284,385)</u>
Total accumulated depreciation	<u>(59,931,751)</u>	<u>(4,125,652)</u>	<u>1,987,262</u>	<u>(62,070,141)</u>
Net capital assets being depreciated	<u>103,134,308</u>	<u>1,378,649</u>	<u>(211,158)</u>	<u>104,301,799</u>
Total governmental activities capital assets, net	\$ <u>126,690,705</u>	\$ <u>3,658,697</u>	\$ <u>(211,158)</u>	\$ <u>130,138,244</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 100,613
Security of persons and property	510,249
Transportation	2,297,296
Leisure time activities	204,532
Community development	<u>1,012,962</u>
Total depreciation expense	\$ <u>4,125,652</u>

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 10: Capital Assets (continued)

	Balance 12/31/15	Additions	Disposals	Balance 12/31/16
<i>Business-Type Activities:</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,047,947	\$ 1,317,729	\$ (1,210,655)	\$ 1,155,021
Land	2,681,150	-	-	2,681,150
Total capital assets not being depreciated	<u>3,729,097</u>	<u>1,317,729</u>	<u>(1,210,655)</u>	<u>3,836,171</u>
Capital assets being depreciated:				
Land improvements	1,864,382	1,262,655	-	3,127,037
Buildings and improvements	24,331,134	346,022	-	24,677,156
Machinery and equipment	4,247,021	178,235	(80,489)	4,344,767
Vehicles	787,616	-	-	787,616
Infrastructure:				
Sewer lines	<u>34,380,915</u>	<u>276,431</u>	<u>-</u>	<u>34,657,346</u>
Total capital assets being depreciated	65,611,068	2,063,343	(80,489)	67,593,922
Less accumulated depreciation:				
Land improvements	(86,362)	(53,972)	-	(140,334)
Buildings and improvements	(10,618,466)	(540,462)	-	(11,158,928)
Machinery and equipment	(2,596,920)	(143,712)	80,489	(2,660,143)
Vehicles	(411,373)	(35,105)	-	(446,478)
Infrastructure:				
Sewer lines	<u>(8,084,838)</u>	<u>(446,210)</u>	<u>-</u>	<u>(8,531,048)</u>
Total accumulated depreciation	<u>(21,797,959)</u>	<u>(1,219,461)</u>	<u>80,489</u>	<u>(22,936,931)</u>
Net capital assets being depreciated	<u>43,813,109</u>	<u>843,882</u>	<u>-</u>	<u>44,656,991</u>
Total business-type activities capital assets, net	\$ <u>47,542,206</u>	\$ <u>2,161,611</u>	\$ <u>(1,210,655)</u>	\$ <u>48,493,162</u>

Note 11: Long-Term Obligations

The original issue date, interest rates and issuance amount for each of the City's bonds and loans follows:

	Original Issue Date	Original Interest Rate	Original Issue Amount
<i>Governmental Activities:</i>			
General obligation bonds:			
Park land and conservation refunding, senior citizens center, and golf course refunding	2011A	2.00% - 4.88%	\$ 6,455,000
Darrow Road improvement refunding	2011B	2.00% - 4.25%	3,115,000
	2013	2.20%	1,888,500

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 11: Long-Term Obligations (continued)

	<u>Original Issue Date</u>	<u>Original Interest Rate</u>	<u>Issue Amount</u>
<i>Governmental Activities (continued):</i>			
Special Assessment Bonds:			
Liberty/Cannon/Chamberlin/Ravenna	2003	2.75% - 5.10%	310,000
Chamberlin Waterline	2005	4.20% - 5.00%	62,000
Energy equipment loan payable	2009	4.38%	902,008
Snow plow vehicles loan payable	2014	2.37%	506,045
OPWC loans:			
Edgewood Road improvements	2008	0.00%	344,925
Haverhill and Croyden Road improvements	2009	0.00%	347,170
Post Road improvements	2010	0.00%	895,653
Sunview Drive improvements	2012	0.00%	631,912
Cobblestone Lane and Old Pond Lane improvements	2013	0.00%	499,000
Warren Parkway improvements	2014	0.00%	288,000
Darrow Road sanitary sewer replacement	2014	0.00%	203,109
Westwood Drive improvements	2014	0.00%	778,999
Hillsdale waterline and sewer improvements	2015	0.00%	412,098
Chamberlin sanitary	2015	0.00%	291,652
Rolling Acres improvements	2016	0.00%	891,131
<i>Business-Type Activities:</i>			
OPWC loans:			
Darrow Road improvements	2012	0.00%	84,834
Belmeadow Drive and Serene Court	2013	0.00%	220,000

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2016 was as follows:

	<u>Balance 12/31/15</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/16</u>	<u>Due in One Year</u>
<i>Governmental Activities:</i>					
General obligation bonds:					
Park land and conservation refunding due through 2021	\$ 3,805,000	\$ -	\$ (670,000)	\$ 3,135,000	\$ 700,000
Senior citizens center and golf course refunding due through 2021	1,955,000	-	(300,000)	1,655,000	310,000
Darrow Road improvement refunding due through 2022	1,375,000	-	(185,000)	1,190,000	185,000
Premium on general obligation bonds	251,560	-	(41,926)	209,634	-
Total general obligation bonds	<u>7,386,560</u>	<u>-</u>	<u>(1,196,926)</u>	<u>6,189,634</u>	<u>1,195,000</u>
Special assessment bonds:					
Liberty/Cannon/Chamberlin/Ravenna due through 2023	120,000	-	(15,000)	105,000	15,000
Chamberlin Waterline due through 2025	<u>32,000</u>	<u>-</u>	<u>(3,000)</u>	<u>29,000</u>	<u>3,000</u>
Total special assessment bonds	<u>152,000</u>	<u>-</u>	<u>(18,000)</u>	<u>134,000</u>	<u>18,000</u>

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 11: Long-Term Obligations (continued)

	<u>Balance</u> <u>12/31/15</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due in</u> <u>One Year</u>
<i>Governmental Activities (continued):</i>					
Other long-term obligations:					
Energy equipment loan payable	54,271	-	(54,271)	-	-
Snow plow vehicles loan payable	341,299	-	(168,651)	172,648	172,648
OPWC – CH10L Edgewood Road improvements	298,934	-	(11,498)	287,436	11,498
OPWC – CH19M Haverhill and Croyden Road improvements	300,882	-	(11,572)	289,310	11,572
OPWC – CH04N Post Road improvements	821,015	-	(29,856)	791,159	29,855
OPWC – CH02O Sunview Drive improvements	589,784	-	(21,064)	568,720	21,064
OPWC – CH06P Cobblestone Lane and Old Pond Lane improvements	482,367	-	(16,633)	465,734	16,633
OPWC – CH09Q Warren Parkway improvements	288,000	-	(9,600)	278,400	9,600
OPWC – CH04P Darrow Road sanitary sewer replacement	203,109	-	(3,385)	199,724	6,770
OPWC – CH11Q Westwood Drive improvements	766,016	-	(25,967)	740,049	25,967
OPWC – CH05R Hillsdale waterline and sewer improvements	393,786	18,312	-	412,098	13,737
OPWC – CH06S Chamberlin sanitary	260,084	31,568	-	291,652	9,722
OPWC – CH03S Rolling Acres improvements	-	891,131	-	891,131	-
Capital lease payable	-	587,442	-	587,442	159,354
Claims payable	-	105,090	(28,018)	77,072	6,383
Net pension liability	18,406,553	5,760,158	-	24,166,711	-
Accrued compensated absences	<u>1,870,272</u>	<u>577,586</u>	<u>(496,481)</u>	<u>1,951,377</u>	<u>445,101</u>
Total other long-term obligations	<u>25,076,372</u>	<u>7,971,287</u>	<u>(876,996)</u>	<u>32,170,663</u>	<u>933,521</u>
Total governmental activities	\$ <u>32,614,932</u>	\$ <u>7,971,287</u>	\$ <u>(2,091,922)</u>	\$ <u>38,494,297</u>	\$ <u>2,146,521</u>
	<u>Balance</u> <u>12/31/15</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due in</u> <u>One Year</u>
<i>Business-Type Activities:</i>					
OPWC – CH04P Darrow Road improvements	\$ 79,178	\$ -	\$ (2,828)	\$ 76,350	\$ 2,828
OPWC – CH05P Belmeadow Dr. / Serene Ct.	209,000	-	(7,333)	201,667	7,333
Capital leases payable	43,621	-	(21,525)	22,096	22,096
Net pension liability	2,595,161	1,105,482	-	3,700,643	-
Accrued compensated absences	<u>308,897</u>	<u>138,220</u>	<u>(89,244)</u>	<u>357,873</u>	<u>144,725</u>
Total business-type activities	\$ <u>3,235,857</u>	\$ <u>1,243,702</u>	\$ <u>(120,930)</u>	\$ <u>4,358,629</u>	\$ <u>176,982</u>

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 11: Long-Term Obligations (continued)

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

Year	<u>Governmental Activities</u>						
	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>Snow Plow Vehicles & Energy Equipment Loans</u>		<u>OPWC</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2017	\$ 1,195,000	\$ 223,892	\$ 18,000	\$ 6,805	\$ 172,648	\$ 4,092	\$ 156,418
2018	1,230,000	179,999	18,000	5,890	-	-	156,418
2019	1,295,000	133,980	18,000	4,976	-	-	156,418
2020	1,330,000	84,716	18,000	4,060	-	-	156,418
2021	720,000	32,018	18,000	3,144	-	-	156,418
2022-2026	210,000	4,620	44,000	4,145	-	-	782,090
2027-2031	-	-	-	-	-	-	782,090
2032-2036	-	-	-	-	-	-	782,090
2037-2041	-	-	-	-	-	-	782,086
2042-2046	-	-	-	-	-	-	413,836
	<u>\$ 5,980,000</u>	<u>\$ 659,225</u>	<u>\$ 134,000</u>	<u>\$ 29,020</u>	<u>\$ 172,648</u>	<u>\$ 4,092</u>	<u>\$ 4,324,282</u>

Business-Type Activities

Year	<u>OPWC</u> <u>Principal</u>
2017	\$ 10,161
2018	10,161
2019	10,161
2020	10,161
2021	10,161
2022-2026	50,805
2027-2031	50,805
2032-2036	50,805
2037-2041	50,805
2042-2046	<u>23,992</u>
	<u>\$ 278,017</u>

As of December 31, 2016, the City's future governmental activities and business-type debt service requirements consisted of bonds payable at various interest rates, 13 non-interest bearing Ohio Public Works Commission (OPWC) loans numbered CH10L, CH19M, CH04N, CH02O, CH06P, CH09Q, CH04P, CH11Q, CH05R, CH06S, CH04P, CH05P and CH03S, capital leases, claims and compensated absences.

General obligation bonds will be paid from the bond retirement debt service fund and park debt service fund. Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received in, and the debt will be retired through, the special assessment bond retirement debt service fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

OPWC loans will be paid semi-annually from the bond retirement debt service fund. These loans are repaid with municipal income tax monies.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 11: Long-Term Obligations (continued)

Compensated absences will be paid from the fund which the employees' salaries are paid. See Note 12 for further detail on capital leases.

During 2009, the City entered into a loan agreement with First Merit bank for the purchase of energy efficient equipment in the amount of \$902,008, payable in annual combined principal and interest payments of \$152,401. The loan was fully retired during 2016.

In 2011, the City defeased a portion of various general obligation bonds and the City's ODOT loan in order to take advantage of lower interest rates. The proceeds of the new bonds and loan were placed in an irrevocable trust to provide for all future debt service payments on the refunded portion of the various general obligation bonds and ODOT loan.

On April 16, 2013, the City issued \$1,888,500 in general obligation bonds for the purpose of refunding various general obligation bonds in order to take advantage of lower interest rates. Proceeds of \$1,888,500 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. The City decreased its total debt service payments by \$201,638 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$181,151.

During 2013, the City obtained an OPWC loan for the Cobblestone Lane and Old Pond Lane reconstruction in the amount of \$499,000, payable in semi-annual payments of \$8,317, at zero percent interest for 30 years. The amounts are included in the amortization table above.

During 2014, the City entered into a loan agreement with First Merit bank for the purchase of three snow plow vehicles in the amount of \$506,045, payable in annual combined principal and interest payments of \$176,740. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

The City also obtained an OPWC loan for the Darrow Road sanitary sewer replacement project and the Warren Parkway improvement project in the amount of \$203,109 and \$778,999, respectively. These loans will be payable in semi-annual payments of \$3,385 and 25,967, respectively, at zero percent interest for 30 years. The amounts are included in the amortization table above.

During 2015, the City obtained an OPWC loan for the Hillsdale improvement project and Chamberlin Sanitary improvement project in the amount of \$412,099 and \$291,652, respectively. These loans will be payable in semi-annual payments of \$13,737 and 9,722, respectively, at zero percent interest for 30 years. The amounts are included in the amortization table above.

At December 31, 2016, the City obtained partial proceeds for the OPWC loan related to the Rolling Acres improvement project. The loan will be repaid in semi-annual principal payments. The City has not collected the total proceeds of the loan, and as a result, the debt maturity schedule above does not reflect any amounts for the principal or interest. When the loan is finalized, the principal and interest will be included in the annual debt maturity schedule above.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 12: Lease Obligations

The City has entered into multiple lease agreements as a lessee for financing various equipment and vehicles. These lease agreements qualify as operating and capital leases. For accounting purposes, capital leases have been recorded at the present value of its future minimum lease payments as of inception date.

Governmental capital assets acquired by a capital lease have been capitalized as vehicles in the amount of \$627,317, accumulated depreciation as of December 31, 2016 for the vehicles was \$27,185, leaving a current book value of \$600,132.

Business-type capital assets acquired by these leases have been capitalized as equipment in the amount of \$113,600, accumulated depreciation as of December 31, 2016, for the equipment was \$41,653, leaving a current book value of \$71,947 for equipment.

The following is a schedule of the future minimum lease payments required under the operating and capital leases and the present value of the minimum lease payments at year-end:

Year	Operating Lease	Capital Leases	
	Governmental Lease Payments	Governmental Lease Payments	Business-Type Lease Payments
2017	\$ 8,000	\$ 175,612	\$ 22,682
2018	-	175,613	-
2019	-	175,613	-
2020	-	50,240	-
2021	-	50,240	-
Total minimum lease payments	8,000	627,318	22,682
Less: amount representing interest	-	(39,876)	(586)
Present value of minimum lease payments	\$ 8,000	\$ 587,442	\$ 22,096

Rental expenditures related to operating leases for equipment totaled \$16,000 for governmental funds for the year ended December 31, 2016.

Note 13: Compensated Absences

Accumulated unpaid vacation is accrued when earned and is normally paid in the first three months of the subsequent calendar year. In accordance with the Codified Ordinances of the City, unused vacation pay cannot be carried over from year to year. Accordingly, all accrued vacation pay is considered to be due within one year. City employees are paid for earned, unused vacation leave at the time of the termination of their employment.

Sick leave is earned at the rate of ten hours per month for full-time employees and 4.6 hours per eighty hours worked by part-time employees. Each employee with the City is paid for up to 180 days or a maximum of 1,440 hours for Ohio Public Employment Retirement System (OPERS) employees and 1,740 hours for Ohio Police and Fire Pension Fund (OP&F) employees, upon retirement from the City, and 30 years of service for OPERS employees and 20 years of service for retiring police employees. Individuals leaving the employment of the City prior to retirement lose their accumulated sick leave.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans

A. Net Pension Liability

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

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

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

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

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

B. 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, substantially all employee members are in OPERS' Traditional or Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. 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 614-222-5601 or 800-222-7377.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

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

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (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

When a benefit recipient retiring under the Traditional plan 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% 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%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional plan.

The Combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the Traditional plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to use their defined contributions account balance to purchase a defined benefit annuity administered by OPERS.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Benefits in the Combined plan consist of both an age-and-service formula benefit (the defined benefit element) and a defined contribution element. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional plan. The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (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: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. 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% 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%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional plan.

The member-directed plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The distribution upon retirement is equal to the sum of member and vested employer contributions plus investment earnings (or losses). Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

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

	<u>State and Local</u>
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

	<u>State and Local</u>
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0 %</u>
Total Employer	<u><u>14.0 %</u></u>
Employee	10.0 %

In 2016, the City's contractually required contribution, net of post-employment health care benefits, was \$1,021,561. Of this amount, \$127,039 is reported as accrued wages and benefits at December 31, 2016.

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

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

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

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before 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% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% 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 OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

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

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

	<u>Police</u>	<u>Firefighter</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:	12.25 %	12.25 %

In 2016, the City's contractually required contribution, net of post-employment health care benefits was \$1,222,346. Of this amount, \$127,574 is reported as accrued wages and benefits at December 31, 2016.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability (asset) prior measurement date	0.063107%	0.058655%	0.258479%	
Proportion of the net pension liability (asset) current measurement date	<u>0.063376%</u>	<u>0.062730%</u>	<u>0.262547%</u>	
Change in Proportionate Share	0.000269%	0.004075%	0.004068%	
Proportionate share of the net pension liability (asset)	\$ 10,977,523	\$ (30,526)	\$ 16,889,831	\$ 27,836,828
Pension expense	\$ 1,554,162	\$ 15,984	\$ 2,335,055	\$ 3,905,201

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflow of resources				
City contributions subsequent to the measurement date	\$ 989,601	\$ 31,960	\$ 1,222,346	\$ 2,243,907
Differences in employer contributions and change in proportionate share	25,409	-	183,707	209,116
Net difference between projected and actual earnings on pension plan investments	<u>3,226,706</u>	<u>13,180</u>	<u>2,749,017</u>	<u>5,988,903</u>
Total deferred outflow of resources	\$ <u>4,241,716</u>	\$ <u>45,140</u>	\$ <u>4,155,070</u>	\$ <u>8,441,926</u>
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	\$ -	\$ 929	\$ -	\$ 929
Difference between expected and actual experience	<u>212,107</u>	<u>13,929</u>	<u>47,426</u>	<u>273,462</u>
Total deferred inflow of resources	\$ <u>212,107</u>	\$ <u>14,858</u>	\$ <u>47,426</u>	\$ <u>274,391</u>

The \$2,243,907 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Fiscal Year Ending December 31:				
2017	717,436	1,515	750,149	1,469,100
2018	769,030	1,515	750,149	1,520,694
2019	823,337	1,515	750,149	1,575,001
2020	730,205	1,147	603,602	1,334,954
2021	-	(1,872)	26,258	24,386
2022-2025	-	(5,498)	4,991	(507)
	\$ <u>3,040,008</u>	\$ <u>(1,678)</u>	\$ <u>2,885,298</u>	\$ <u>5,923,628</u>

E. Actuarial Assumptions - OPERS

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Experience Study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	8%	8%
Wage Inflation	3.75%	3.75%
Future Salary Increases, including 3.75% inflation	4.25 to 10.05%	4.25 to 8.05%
COLA	3% Simple	3% Simple

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% 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% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

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

OPERS manages investments in four investment portfolios: the defined benefits portfolio, the health care portfolio, the 115 health care trust portfolio and the defined contribution portfolio. The defined benefit portfolio includes the investment assets of the Traditional 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, net of investment expenses, 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% for 2015.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

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

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.31%
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	100.00%	

Discount Rate The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, 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 was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
City’s proportionate share of the net pension liability – Traditional	\$ 17,489,875	\$ 10,977,523	\$ 5,484,559
City’s proportionate share of the net pension liability (asset) – Combined	\$ (627)	\$ (30,526)	\$ (54,575)

Changes between Measurement Date and Report Date

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

F. 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:

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	-0-%
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income	20.00	1.62
Global Inflation Protected	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00%</u>	

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 14: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

OP&F’s Board of Trustees has incorporated the “risk parity” concept into OP&F’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on 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%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25%. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease <u>(7.25%)</u>	Discount Rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City’s proportionate share of the net pension liability	\$ 22,275,427	\$ 16,889,831	\$ 12,327,704

Note 15: Post-Employment Benefits

A. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 15: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

In order to qualify for health care coverage, age-and-service retirees under the Traditional and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The City's contributions for health care for the years ended December 31, 2016, 2015, and 2014 were \$169,693, \$165,582, and \$161,534, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 92.00% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

B. Ohio Police and Fire Pension Fund

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

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

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 15: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits 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 for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2016 through 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 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 police contributions to OP&F allocated to the health care plan for the years ended December 31, 2016, 2015, and 2014 were \$14,487, \$14,533, \$13,157, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 88.4% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

The City's fire contributions to OP&F allocated to the health care plan for the years ended December 31, 2016, 2015, and 2014 were \$14,275, \$12,484, \$12,623, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 90.3% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 16: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>Park Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Inventory	\$ 179,419	\$ -	\$ -	\$ -	\$ -	\$ 179,419
Unclaimed monies	581	-	-	-	-	581
Total nonspendable	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Restricted for:						
Debt service payments	-	-	49,739	-	-	49,739
Capital improvements	-	-	-	6,250	69,295	75,545
Streets & highways	-	2,218,726	-	-	849,252	3,067,978
Police pension	-	-	-	-	22,451	22,451
Law enforcement education	-	-	-	-	245,098	245,098
Total restricted	<u>-</u>	<u>2,218,726</u>	<u>49,739</u>	<u>6,250</u>	<u>1,186,096</u>	<u>3,460,811</u>
Committed to:						
Parks & recreation	-	-	-	-	200,416	200,416
Employee payout reserve	-	-	-	-	153,667	153,667
Debt service payments	-	-	-	-	240,343	240,343
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>594,426</u>	<u>594,426</u>
Assigned to:						
Capital improvements	-	-	-	2,475,128	-	2,475,128
Encumbrances	298,416	-	-	-	-	298,416
Subsequent year's budget:						
Appropriation of fund balances	9,357,690	-	-	-	-	9,357,690
Total assigned	<u>9,656,106</u>	<u>-</u>	<u>-</u>	<u>2,475,128</u>	<u>-</u>	<u>12,131,234</u>
Unassigned (deficit)	<u>7,187,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,102)</u>	<u>7,117,363</u>
Total fund balance	<u>\$ 17,023,571</u>	<u>\$ 2,218,726</u>	<u>\$ 49,739</u>	<u>\$ 2,481,378</u>	<u>\$ 1,710,420</u>	<u>\$ 23,483,834</u>

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 17: Interfund Transfer

Interfund transfers for the year ended December 31, 2016, consisted of the following:

	<u>Transfer From</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>
Transfer to:		
Street construction, maintenance, and repairs fund	\$ 2,474,992	\$ -
Capital improvement fund	2,028,147	-
Sewer fund	81,572	10,161
Fitness center fund	926,261	-
Golf course fund	374,168	-
Other governmental funds	<u>1,992,382</u>	<u>-</u>
Total transfers	\$ <u>7,877,522</u>	\$ <u>10,161</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and to provide additional resources for current operations or debt service. During 2016, transfers of \$10,161 were made from other governmental funds to the sewer fund for debt service payments.

Note 18: Other Significant Commitments

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

	<u>Encumbrances</u>
Governmental Funds:	
General fund	\$ 298,416
Street construction, maintenance and repair fund	334,695
Capital improvement fund	947,029
Other governmental funds	<u>302,161</u>
Total Governmental	\$ <u>1,882,301</u>

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 19: Tax Abatement Disclosures

As of December 31, 2016, the City of Twinsburg provides tax incentives under the Community Reinvestment Area (CRA) Program.

Real Estate tax abatements

Pursuant to Ohio Revised Code Chapter 3735, the City established a Community Reinvestment area in 1999, which included all land within the boundaries of the City of Twinsburg. The City of Twinsburg authorizes incentives through passage of public resolutions, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvement have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The abatement is provided for an agreed upon time frame. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to maintain and expand business located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate. During 2016, the City of Twinsburg contracted with the Twinsburg City School District for payments in lieu of taxes when required by Section 5709.82 of the Ohio Revised Code.

City Council's incentive criteria for decision making

The City of Twinsburg has offered tax incentives and CRA abatements to various businesses based upon substantial project investment into the City. The City considers projects that have at least a \$100,000 real estate investment into a property, along with the retention and creation of at least 10 jobs.

If the abated business materially fails to fulfill their obligations under their agreement, or if the City determines the certification as to delinquent taxes required by the agreement to be fraudulent, the City may terminate or modify the exemptions from taxation granted under their agreement and may require the repayment of the amount of taxes that would have been payable had the property not been exempted from taxation under their agreement.

For the year ended December 31, 2016, the City abated property taxes totaling \$711,836 under this program.

Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Twinsburg and the Twinsburg City School District created various Community Reinvestment Area Compensation Agreements. These agreements state a reimbursement percentage of 35% municipal income tax revenue sharing with the Twinsburg City School District when new income tax collections exceed \$1 million dollars and the corresponding CRA abatement percentage on the project is greater than 50%.

The required amount of income tax dollars paid by the City to the Twinsburg City School District in 2016 was \$63,247

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 20: Subsequent Event

On March 1, 2017, the City issued bond anticipation notes in the amount of \$6,138,000 with an interest rate of 1.191%, maturing on March 1, 2018. The notes were issued for the purpose of paying costs of constructing, furnishing, and equipping a new clubhouse at the City's Gleneagles Golf Club.

Note 21: Discretely Presented Component Unit

Note A. Nature of Operations

The Twinsburg Community Improvement Corporation (TCIC) was incorporated as a non-profit organization in the state of Ohio, on July 1, 2013. The mission of the TCIC is to advance, encourage, and promote the industrial, economic, commercial, distribution, research and civic development of the City of Twinsburg. The TCIC's basic programs include economic development and community development activities and the City of Twinsburg has designated the TCIC to as its agent for the Community Reinvestment Area and Twinsburg Occupancy programs.

Note B. Summary of Significant Accounting Policies

Basis of Accounting

The TCIC accounts for its revenues and related expenses on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Revenues are reported in the year earned. Costs and expenses are charged against revenues in the year to which the cost is applicable.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ASC 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, the TCIC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2016, the TCIC does not have any temporarily or permanently restricted net assets.

Income Tax Status

The TCIC has filed for exemption from Federal income taxes as described under Internal Revenue Code (IRC) 501(c)(3). Therefore, no provision for income tax has been recorded in the accompanying financial statements.

Accounting principles generally accepted in the United States require management to evaluate tax positions taken by the TCIC and recognize a tax liability (or asset) if the TCIC has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the TCIC, and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The TCIC is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The TCIC's Federal Return of Organization from Income Tax (federal Form 990) for 2014 and 2015 are subject to examination by the IRS, generally for three years after filing.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 21: Discretely Presented Component Unit (continued)

Estimates

In preparing financial statements in conformity with GAAP, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the TCIC considers all highly liquid instruments purchased with maturity of three months or less to be cash equivalents.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. It is the TCIC's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Capital Assets

It is the policy of the TCIC to capitalize capital assets if the cost exceeds \$5,000, has a useful life of 3 years and is not considered to be a normal repair or maintenance item.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of management estimates. Administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the TCIC.

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Unless specifically restricted by the donor, all contributions and grants are considered to be available for unrestricted use in the activities of the TCIC.

The Board of Trustees has discretionary control of the unrestricted net assets to use in the activities of the TCIC.

Note C. Land for Investment/Sale

The Corporation owns the land at 8949 Darrow Road, Twinsburg, Ohio 44087. The land is valued at its purchase price in the financial statements. The Corporation promotes the sale of this land in Summit County to prospective industrial clients.

City of Twinsburg, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2016

Note 21: Discretely Presented Component Unit (continued)

Note D. Concentration of Risk

The TCIC maintains its cash at a local financial institution. The account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016, the TCIC's entire cash balance is insured.

For the year ended December 31, 2016, the TCIC received 89% of its revenue from the City of Twinsburg.

Note E. Insurance

The Corporation maintains property insurance through a private insurance carrier. The insurance was purchased in 2016 when the property was purchased. There have been no claims that exceeded coverage.

Note F. Subsequent Events

Management has evaluated events subsequent to the date of the financial statements through June 29, 2017, which is the date the financial statements were available to be issued. No events subsequent to year end through June 29, 2017 have occurred that require inclusion in these financial statements.

City of Twinsburg, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employee Retirement System – Traditional Plan

For the Last Three Years

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.063376%	0.063107%	0.063107%
City's proportionate share of the net pension liability	\$ 10,977,523	\$ 7,611,409	\$ 7,439,493
City's covered payroll	\$ 7,963,767	\$ 7,740,890	\$ 7,250,462
City's proportionate share of the net pension liability as a percentage of its covered payroll	137.84%	98.33%	102.61%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	n/a

(1) Information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date which is December 31 of the prior year.

City of Twinsburg, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Asset
Ohio Public Employee Retirement System – Combined Plan

For the Last Three Years

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension asset	0.062730%	0.058655%	0.058655%
City's proportionate share of the net pension asset	\$ 30,526	\$ 22,585	\$ 6,155
City's covered payroll	\$ 231,342	\$ 206,941	\$ 210,623
City's proportionate share of the net pension asset as a percentage of its covered payroll	13.20%	10.91%	2.92%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	n/a

(1) Information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date which is December 31 of the prior year.

City of Twinsburg, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension

For the Last Three Years

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.262547%	0.258479%	0.258479%
City's proportionate share of the net pension liability	\$ 16,889,831	\$ 13,390,305	\$ 12,588,752
City's covered payroll	\$ 5,424,500	\$ 5,108,843	\$ 5,160,956
City's proportionate share of the net pension liability as a percentage of its covered payroll	311.36%	262.10%	243.92%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	71.71%	n/a

(1) Information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date which is December 31 of the prior year.

City of Twinsburg, Ohio

Required Supplementary Information

Schedule of the City Contributions

Ohio Pension Employee Retirement System – Traditional Plan

Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 989,601	\$ 955,652	\$ 928,907	\$ 942,560	\$ 690,548
Contributions in relation to the contractually-required contribution	<u>(989,601)</u>	<u>(955,652)</u>	<u>(928,907)</u>	<u>(942,560)</u>	<u>(690,548)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 8,246,675	\$ 7,963,767	\$ 7,740,890	\$ 7,250,462	\$ 6,905,479
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 672,454	\$ 602,574	\$ 564,464	\$ 483,219	\$ 641,173
Contributions in relation to the contractually-required contribution	<u>(672,454)</u>	<u>(602,574)</u>	<u>(564,464)</u>	<u>(483,219)</u>	<u>(641,173)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 6,724,542	\$ 6,695,270	\$ 6,640,752	\$ 6,903,128	\$ 7,678,720
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

City of Twinsburg, Ohio

Required Supplementary Information Schedule of the City Contributions

Ohio Pension Employee Retirement System – Combined Plan

Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 31,960	\$ 27,761	\$ 24,833	\$ 27,381	\$ 20,060
Contributions in relation to the contractually-required contribution	<u>(31,960)</u>	<u>(27,761)</u>	<u>(24,833)</u>	<u>(27,381)</u>	<u>(20,060)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 266,331	\$ 231,342	\$ 206,941	\$ 210,623	\$ 200,601
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 19,535	\$ 17,505	\$ 16,397	\$ 14,037	\$ 18,626
Contributions in relation to the contractually-required contribution	<u>(19,535)</u>	<u>(17,505)</u>	<u>(16,397)</u>	<u>(14,037)</u>	<u>(18,626)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 195,345	\$ 194,495	\$ 192,911	\$ 200,533	\$ 223,064
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

City of Twinsburg, Ohio

Required Supplementary Information Schedule of the City Contributions Ohio Police and Fire Pension

Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 1,222,346	\$ 1,143,718	\$ 1,084,244	\$ 930,836	\$ 725,403
Contributions in relation to the contractually-required contribution	<u>(1,222,346)</u>	<u>(1,143,718)</u>	<u>(1,084,244)</u>	<u>(930,836)</u>	<u>(725,403)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 5,762,591	\$ 5,424,500	\$ 5,108,843	\$ 5,160,956	\$ 4,877,787
Contributions as a percentage of covered payroll	21.21%	21.08%	21.22%	18.04%	14.87%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 748,985	\$ 702,098	\$ 713,159	\$ 708,034	\$ 679,234
Contributions in relation to the contractually-required contribution	<u>(748,985)</u>	<u>(702,098)</u>	<u>(713,159)</u>	<u>(708,034)</u>	<u>(679,234)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 5,005,113	\$ 4,697,080	\$ 4,781,291	\$ 4,758,372	\$ 4,591,786
Contributions as a percentage of covered payroll	14.96%	14.95%	14.92%	14.88%	14.79%



313 Second St.
Marietta, OH 45750
740.373.0056

1907 Grand Central Ave.
Vienna, WV 26105
304.422.2203

104 South Sugar St.
St. Clairsville, OH 43950
740.695.1569

1310 Market St., Suite 300
Wheeling, WV 26003
304.232.1358

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

July 17, 2017

City of Twinsburg
Summit County
10075 Ravenna Road
Twinsburg, Ohio 44087

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Twinsburg**, Summit County, (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 July 17, 2017.

Internal Control Over Financial Reporting

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

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

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



...“bringing more to the table”

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll

Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

• Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •

• Association of Certified Anti - Money Laundering Specialists •



City of Twinsburg, Summit County
Independent Auditor's Report On Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 17, 2017.

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.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio



Dave Yost • Auditor of State

CITY OF TWINSBURG

SUMMIT 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
DECEMBER 28, 2017**