

CITY OF HURON
ERIE COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2017





Dave Yost • Auditor of State

City Council
City of Huron
417 Main Street
Huron, Ohio 44839

We have reviewed the *Independent Auditor's Report* of the City of Huron, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 17, 2018

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**CITY OF HURON
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2017**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

City of Huron
Erie County
417 Main Street
Huron, Ohio 44839

To the Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron, Erie County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron, Erie County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Fire Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities and pension contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control 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 and compliance.



Charles E. Harris & Associates, Inc.
July 26, 2018

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

The discussion and analysis of the City of Huron's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are advised to review the basic financial statements and the notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- For governmental activities, net position increased \$104,010, which represents an increase of .9 percent from 2016.
- Net position of business-type related activities increased \$459,569 or 5.6 percent from 2016.
- General revenues, for governmental activities, accounted for \$4,182,849 or 49 percent of total governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$4,355,975 or 51 percent of total governmental revenues of \$8,538,824.
- For business-type activities, total expenses were \$1,973,511; these expenses were offset by program specific charges for services and sales.
- The City issued \$3,303,000 in various purpose bond anticipation notes with a 2 percent interest rate.

Overview of the Financial Statements

This annual report consists of a series of financial statements, notes pertaining to those statements, and the required supplementary information. These statements are presented so that the reader can understand the City's financial situation as a whole and also give a detailed view of the City's fiscal condition.

Government Wide Financial Statements. The government wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private sector businesses. The statement of net position and statement of activities provide information about the activities of the City taken as a whole. These statements present both an aggregate view of the City's finances and a longer term view of those related assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government'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 of the government wide financial statements distinguish functions for the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City include general government, security of persons and property, public works, transportation, community environment, interest and fiscal charges, and leisure time activities. The business activities include the water and electric enterprise funds.

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

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 funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

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

The City maintains several 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, fire levy special revenue fund, general obligation bond retirement debt service fund and the capital improvement capital project fund which are considered to be major funds. One fund, budgeted as a special revenue fund, is reported as part of the general fund and data from 24 other governmental funds are combined into single aggregate presentation.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for general fund, the street maintenance and fire levy special revenue funds to demonstrate budgetary compliance.

Proprietary Funds The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions as business type activities in the government wide financial statements. The City uses an enterprise fund to account for its water operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its self insurance of health related benefits offered to all full time employees and some participating part time employees as well as those who are continuing benefits through COBRA. Since health insurance predominately benefits governmental rather than business functions, it has been included within governmental activities in the government wide financial statements.

Proprietary funds provide the same type of information as the government wide financial statements only in more detail. The water and electric funds are considered major funds.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds. The agency funds represent unclaimed monies fund, the state patrol fund, and the Huron Area Joint Recreation fund.

Notes to the Basic 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.

Other Information – In addition to the basic financial statements and accompanying notes, this report presents the required supplementary information.

Government-Wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and answers the question, "How did we do financially during 2017?" The statement of net position and statement of activities answers this question, as stated earlier. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by a private business.

The basis for this accounting considers all of the current year revenues and expenses regardless of when the cash was received or paid. These two statements report the City's net position and the changes in this position. The change in position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or declined. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The City of Huron as a Whole

Recall that the Statement of Net Position looks at the City as a whole.

Table 1 provides a summary of the City's net position for 2017 compared to 2016:

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets:						
Current and other assets	\$ 8,097,943	\$ 7,992,898	\$ 2,556,838	\$ 2,538,310	\$ 10,654,781	\$ 10,531,208
Capital assets	17,203,622	16,689,578	8,137,903	7,210,054	25,341,525	23,899,632
Total assets	<u>25,301,565</u>	<u>24,682,476</u>	<u>10,694,741</u>	<u>9,748,364</u>	<u>35,996,306</u>	<u>34,430,840</u>
Deferred outflows of resources:						
Pension	<u>1,594,585</u>	<u>1,793,816</u>	<u>382,940</u>	<u>262,906</u>	<u>1,977,525</u>	<u>2,056,722</u>
Liabilities:						
Current liabilities	843,605	522,189	205,847	85,459	1,049,452	607,648
Long-term liabilities:						
Due within one year	513,531	562,802	225,434	293,739	738,965	856,541
Due in more than one year:						
Net pension liability	7,187,747	6,914,004	948,583	698,311	8,136,330	7,612,315
Other amounts	<u>5,557,863</u>	<u>5,899,692</u>	<u>1,077,760</u>	<u>765,463</u>	<u>6,635,623</u>	<u>6,665,155</u>
Total liabilities	<u>14,102,746</u>	<u>13,898,687</u>	<u>2,457,624</u>	<u>1,842,972</u>	<u>16,560,370</u>	<u>15,741,659</u>
Deferred inflows of resources:						
Property taxes	858,393	781,947	-	-	858,393	781,947
Pension	<u>176,326</u>	<u>140,983</u>	<u>5,646</u>	<u>13,456</u>	<u>181,972</u>	<u>154,439</u>
Total deferred inflows of resources	<u>1,034,719</u>	<u>922,930</u>	<u>5,646</u>	<u>13,456</u>	<u>1,040,365</u>	<u>936,386</u>
Net Position:						
Net investment in capital assets	11,628,687	11,544,858	6,931,755	6,244,664	18,560,442	17,789,522
Restricted net position	3,705,790	2,736,391	-	-	3,705,790	2,736,391
Unrestricted net position	<u>(3,575,792)</u>	<u>(2,626,574)</u>	<u>1,682,656</u>	<u>1,910,178</u>	<u>(1,893,136)</u>	<u>(716,396)</u>
Total net position	<u>\$ 11,758,685</u>	<u>\$ 11,654,675</u>	<u>\$ 8,614,411</u>	<u>\$ 8,154,842</u>	<u>\$ 20,373,096</u>	<u>\$ 19,809,517</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the City, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$20,373,096 at the close of the most recent year. This amounts to \$11,758,685 in governmental activities and \$8,614,411 in business-type activities.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

The City's statement of activities prepared on an accrual basis of accounting includes an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

The City is also reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 70.4 percent of total governmental and business-type assets. Capital assets include land, construction in progress, land and land improvements, land use rights, land improvements, buildings and improvements, equipment and furniture, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2017, were \$18,560,442. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's governmental net position, \$3,705,790 or 31.5 percent, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net position, \$891,633 is restricted for capital projects, \$157,587 is restricted for debt service, \$27,024 is restricted for leisure, \$566,388 is restricted for transportation, \$869,398 is restricted for security persons and property and \$1,193,760 is restricted for other purposes. The remaining significant balance of governmental activities unrestricted net position is a deficit of \$3,575,792.

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 2 below shows the changes in net position for governmental and business-type activities for year 2017 compared to 2016:

Table 2
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 3,258,195	\$ 2,942,665	\$ 2,429,360	\$ 2,320,994	\$ 5,687,555	\$ 5,263,659
Operating grants and contributions	801,452	845,838	3,720	17,573	805,172	863,411
Capital grants and contributions	296,328	180,000	-	313,499	296,328	493,499
General revenues:						
Income taxes	2,850,486	2,623,770	-	-	2,850,486	2,623,770
Property taxes	873,426	749,068	-	-	873,426	749,068
Payment in lieu of tax	-	160	-	-	-	160
Intergovernmental	236,138	161,709	-	-	236,138	161,709
Interest	22,082	77,662	-	-	22,082	77,662
Miscellaneous	200,717	157,429	-	-	200,717	157,429
Total revenues	<u>8,538,824</u>	<u>7,738,301</u>	<u>2,433,080</u>	<u>2,652,066</u>	<u>10,971,904</u>	<u>10,390,367</u>
Program Expenses						
Governmental Activities:						
General government	1,655,955	1,197,905	-	-	1,655,955	1,197,905
Security of persons and property:						
Police	1,703,644	1,696,386	-	-	1,703,644	1,696,386
Fire	1,821,788	1,938,260	-	-	1,821,788	1,938,260
Other	136,989	130,374	-	-	136,989	130,374
Leisure time activities	1,110,717	852,851	-	-	1,110,717	852,851
Economic development and assistance	222,040	73,599	-	-	222,040	73,599
Transportation	1,001,427	730,743	-	-	1,001,427	730,743
Refuse	678,458	636,938	-	-	678,458	636,938
Interest and fiscal charges	103,796	96,924	-	-	103,796	96,924
Business-type Activities:						
Water	-	-	1,798,315	1,782,547	1,798,315	1,782,547
Electric	-	-	175,196	204,752	175,196	204,752
Total program expenses	<u>8,434,814</u>	<u>7,353,980</u>	<u>1,973,511</u>	<u>1,987,299</u>	<u>10,408,325</u>	<u>9,341,279</u>
Change in net position	104,010	384,321	459,569	664,767	563,579	1,049,088
Net position beginning of year	<u>11,654,675</u>	<u>11,270,354</u>	<u>8,154,842</u>	<u>7,490,075</u>	<u>19,809,517</u>	<u>18,760,429</u>
Net position end of year	<u>\$ 11,758,685</u>	<u>\$ 11,654,675</u>	<u>\$ 8,614,411</u>	<u>\$ 8,154,842</u>	<u>\$ 20,373,096</u>	<u>\$ 19,809,517</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Governmental Activities

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounts for \$3,662,421 of expenses, or 43.4 percent of total governmental expenses of the City. These expenses were funded by \$1,409,603 in charges to users of services and operating grants. General government expenses, which primarily include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity; totaled \$1,655,955 or 19.6 percent of total governmental expenses. General government expenses were partially covered by \$641,779 of direct charges to users.

General revenues totaled \$4,182,849, and amounted to 49 percent of total revenues. These revenues primarily consist of property and income tax revenue of \$3,723,912, or 89 percent of total general revenues. The other primary source of general revenues is intergovernmental that are not restricted to specific programs, with a majority of the revenue being local government and local government revenue assistance. For 2017, these revenues totaled \$236,138 or 5.6 percent of the total general revenues.

The net position for the internal service fund increased \$108,898. This increase was mainly attributable to a decrease in claims expense from the prior year.

Business-type Activities

The water and electric funds represent the City's business-type activities. These programs have program revenues of \$2,433,080, and expenses of \$1,973,511, for the year ended December 31, 2017. Business-type activities had an increase in net position of \$459,569. For this year, the increase in net position was attributed to operating activities.

Most of the business-type activities program revenue was charges for services. The majority of the receipts were used to fund the water operations.

In the prior year, the City implemented the accounting standard for pension plans. As a result of implementing the new accounting standard, the City is reporting a significant net pension liability, related deferred inflows of resources and an increase in expenses related to pension for the fiscal year which have a negative effect on net position. In addition, the City is reporting deferred outflows of resources, which have a positive consequence on net position. The increase in pension expense is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the City's net position, additional information is presented below.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

	2017	2016	2017	2016
	Governmental	Governmental	Business-Type	Business-Type
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Deferred outflows - pension	\$ 1,594,585	\$ 1,793,816	\$ 382,940	\$ 262,906
Deferred inflows - pension	(176,326)	(140,983)	(5,646)	(13,456)
Net pension liability	<u>(7,187,747)</u>	<u>(6,914,004)</u>	<u>(948,583)</u>	<u>(698,311)</u>
Impact of GASB 68 on net position	<u>\$ (5,769,488)</u>	<u>\$ (5,261,171)</u>	<u>\$ (571,289)</u>	<u>\$ (448,861)</u>

Financial Analysis of City Funds

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

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

As of December 31, 2017, the City's governmental funds reported a combined ending fund balance of \$5,512,114, a decrease of \$393,693 in comparison with the prior year. \$1,237,029 of the ending combined fund balance for 2017 constitutes assigned and unassigned fund balance combined, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted, or committed to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints. A large portion of the fund balance, \$3,366,855, or 61.1 percent is restricted. These restricted amounts lead to restricted net position on the Statement of Net Position due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The general fund is the primary operating fund of the City. At the end of 2017, unassigned fund balance was \$1,221,467 while total fund balance was \$1,460,239. As a measure of the general fund's liquidity it may be useful to compare both, unassigned fund balance and total fund balance to total fund expenditures. The fund balance of the City's general fund decreased by \$731,693 during 2017. This decrease was due primarily from increased expenditures from general government and police spending.

City of Huron, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2017
 Unaudited

Table 3 below reports year 2017 balances compared to 2016:

Table 3
 Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2017	December 31, 2016		
General	\$ 1,460,239	\$ 2,191,932	\$ (731,693)	-33.4%
Fire levy	660,913	547,321	113,592	20.8%
General obligation bond retirement	50,642	642	50,000	7788.2%
Capital improvement	834,548	1,384,453	(549,905)	39.7%
Other governmental funds	2,505,772	1,781,459	724,313	40.7%
	<u>\$ 5,512,114</u>	<u>\$ 5,905,807</u>	<u>\$ (393,693)</u>	

The fire levy fund balance increased by \$113,592. Fund balance at December 31, 2017, was \$660,913 reporting \$1,671,591 in revenues and \$1,715,499 in expenditures. The general obligation bond retirement fund balance increased \$50,000 from 2016 to an ending fund balance of \$50,642. The capital improvement fund balance decreased by \$549,905 to a fund balance of \$834,548. The increase in capital spending was attributable to this decrease. All other governmental funds fund balance increased by \$724,313 during 2017.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Table 4 below assists in illustrating the financial activities for the general fund of year 2017 balances compared to 2016:

Table 4
Change in Financial Activities for the General Fund

	December 31, <u>2017</u>	December 31, <u>2016</u>	Increase <u>(Decrease)</u>
<u>Revenues:</u>			
Income tax	\$ 2,171,065	\$ 2,176,855	\$ (5,790)
Property and other taxes	256,649	224,104	32,545
Charges for services	824,206	809,649	14,557
Licenses and permits	225,882	153,247	72,635
Fines and forfeitures	290,862	320,045	(29,183)
Intergovernmental	174,054	168,043	6,011
Investment income	22,082	77,662	(55,580)
Other	184,552	138,386	46,166
Total revenue	<u>\$ 4,149,352</u>	<u>\$ 4,067,991</u>	<u>\$ 81,361</u>
<u>Expenditures:</u>			
Current:			
General government	1,404,307	1,044,443	359,864
Security of persons and property:			
Police	1,237,038	1,162,411	74,627
Fire	25,094	29,680	(4,586)
Refuse	678,458	636,938	41,520
Leisure time activities	3,093	-	3,093
Capital outlay	10,593	-	10,593
Total expenditures	<u>\$ 3,358,583</u>	<u>\$ 2,873,472</u>	<u>\$ 485,111</u>

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report functions presented as a business-type activities on the government-wide financial statements. As noted earlier, the City uses enterprise funds to account for water and electric operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's other programs and activities. The City uses an internal service fund to account for the self-insurance program and employee benefits.

Analysis of the City's enterprise funds is noted above within the discussion of the City's business-type activities.

As of December 31, 2017, unrestricted net position in the self-insurance program was \$265,888.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Budgetary Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2017 the City amended its general fund budget on various occasions. All recommendations for budget changes come to the Finance Committee of City Council for review before going to the whole Council for ordinance enactment on the change. The City allows small interdepartmental budget changes that modify line items within departments within the same fund. The general fund supports many of the City's major activities such as the Police Department as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The general fund original budgeted revenue was increased by \$202,608 during the year due to anticipated additional revenues being received later in the year. The actual revenue received during the year was \$105,009 or 2.18 percent less than the final estimate.

The general fund original budgeted expenditures were less than the final budgeted expenditures by \$199,296. There were no individually significant events that led to these differences. Actual expenditures, plus encumbrances for the year were \$276,253 less than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets - At the end of 2017, the City had \$25,341,525 (net of accumulated depreciation) invested in land, land use rights, land improvements, buildings and improvements, equipment and furniture, vehicles, infrastructure and construction in progress. Of this total \$17,203,622 was reported in governmental activities and \$8,137,903 was reported in business-type activities.

Table 5 shows fiscal year 2017 balances compared to 2016.

Table 5
Capital Assets, at December 31
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 6,214,153	\$ 6,143,390	\$ 30,000	\$ 30,000	\$ 6,244,153	\$ 6,173,390
Land use rights	49,687	49,687	-	-	49,687	49,687
Construction in progress	918,237	727,135	519,022	141,801	1,437,259	868,936
Land improvements	3,721,832	3,689,961	19,906	27,438	3,741,738	3,717,399
Buildings and improvements	1,939,882	1,957,157	1,530,504	1,588,260	3,470,386	3,545,417
Equipment and furniture	383,626	408,348	1,439,552	1,462,554	1,823,178	1,870,902
Vehicles	572,566	707,918	79,858	72,373	652,424	780,291
Infrastructure	3,403,639	3,005,982	4,519,061	3,887,628	7,922,700	6,893,610
Total	<u>\$ 17,203,622</u>	<u>\$ 16,689,578</u>	<u>\$ 8,137,903</u>	<u>\$ 7,210,054</u>	<u>\$ 25,341,525</u>	<u>\$ 23,899,632</u>

For governmental activities capital additions were offset by \$569,170 of accumulated depreciation.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

Unaudited

Depreciation expense for business-type activities was \$245,056. In 2017 the most significant increases were in infrastructure and construction in progress for ongoing construction projects.

Additional information concerning the City's capital assets can be found in Note 7 of the basic financial statements.

Long-Term Debt - At December 31, 2017 the City had total long-term debt outstanding of \$6,781,083. Of this total, \$538,205 is due within one year and \$6,242,878 is due in more than one year. Table 6 below summarizes the bonds and loans outstanding:

Table 6
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 1,996,706	\$ 2,265,655	\$ 589,937	\$ 713,761	\$ 2,586,643	\$ 2,979,416
Notes	3,303,000	3,303,000	-	-	3,303,000	3,303,000
OWDA loan	-	-	616,211	212,803	616,211	212,803
Lease-purchase loan	88,491	116,346	-	-	88,491	116,346
Capital leases	186,738	267,452	-	38,826	186,738	306,278
Total	<u>\$ 5,574,935</u>	<u>\$ 5,952,453</u>	<u>\$ 1,206,148</u>	<u>\$ 965,390</u>	<u>\$ 6,781,083</u>	<u>\$ 6,917,843</u>

At December 31, 2017 the City's overall legal debt margin was \$18,092,460, with an unvoted debt margin of \$8,180,460. The City's credit rating remained unchanged in 2017 as compared to 2016.

Additional information concerning the City's capital leases and debt can be found in Notes 9, 10 and 11 of the basic financial statements.

Economic Factors

The City is financially strong. The City is continuing its economic priority by aggressively pursuing new businesses to move to its community as well as people who represent investment capital. The City has implemented a zoning program, and groups such as the Huron Economic Development Committee and Chamber of Commerce have supported the reservation of industrial tracts. Also, with the creation of the Huron Joint Port Authority has helped to ensure that the local harbor facilities can be developed to their maximum potential. The Port Authority continues working to create additional uses of the harbor in an effort to stimulate commerce in the community.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Catherine Ramey, Financial Director, 417 Main Street, Huron, Ohio 44839.

City of Huron, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 5,454,244	\$ 1,868,608	\$ 7,322,852
Cash and cash equivalents in segregated accounts	289,442	-	289,442
Receivables:			
Income tax	440,047	-	440,047
Property and other taxes	921,252	-	921,252
Accounts	485,192	538,908	1,024,100
Special assessments	141,201	25,275	166,476
Accrued interest	12,170	-	12,170
Intergovernmental	316,520	-	316,520
Materials and supplies inventory	8,044	107,680	115,724
Prepaid items	29,831	16,367	46,198
Nondepreciable capital assets	7,182,077	549,022	7,731,099
Depreciable capital assets, net	10,021,545	7,588,881	17,610,426
Total assets	<u>25,301,565</u>	<u>10,694,741</u>	<u>35,996,306</u>
<u>Deferred outflows of resources:</u>			
Pension	<u>1,594,585</u>	<u>382,940</u>	<u>1,977,525</u>
<u>Liabilities:</u>			
Accounts payable	354,023	39,043	393,066
Contracts payable	189,674	126,155	315,829
Accrued wages and benefits	131,424	26,204	157,628
Pension obligation payable	65,575	11,661	77,236
Due to other governments	15,658	1,807	17,465
Income tax refunds payable	44,311	-	44,311
Accrued interest payable	34,256	977	35,233
Claims payable	8,684	-	8,684
Long-term liabilities:			
Due within one year	513,531	225,434	738,965
Due in more than one year:			
Net pension liability	7,187,747	948,583	8,136,330
Other amounts due in more than one year	5,557,863	1,077,760	6,635,623
Total liabilities	<u>14,102,746</u>	<u>2,457,624</u>	<u>16,560,370</u>
<u>Deferred inflows of resources:</u>			
Property taxes	858,393	-	858,393
Pension	176,326	5,646	181,972
Total deferred inflows of resources	<u>1,034,719</u>	<u>5,646</u>	<u>1,040,365</u>
<u>Net position:</u>			
Net investment in capital assets	11,628,687	6,931,755	18,560,442
Restricted for:			
Capital projects	891,633	-	891,633
Debt service	157,587	-	157,587
Transportation	566,388	-	566,388
Security of persons and property	869,398	-	869,398
Leisure time activities	27,024	-	27,024
Other purposes	1,193,760	-	1,193,760
Unrestricted	<u>(3,575,792)</u>	<u>1,682,656</u>	<u>(1,893,136)</u>
Total net position	<u>\$ 11,758,685</u>	<u>\$ 8,614,411</u>	<u>\$ 20,373,096</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,655,955	\$ 641,779	\$ -	\$ -
Security of persons and property:				
Police	1,703,644	79,409	31,489	-
Fire	1,821,788	1,084,901	2,068	-
Other	136,989	211,736	-	-
Leisure time activities	1,110,717	368,915	309,665	296,328
Economic development and assistance	222,040	35,234	50	-
Transportation	1,001,427	45,707	458,180	-
Refuse	678,458	790,514	-	-
Interest and fiscal charges	103,796	-	-	-
Total governmental activities	<u>8,434,814</u>	<u>3,258,195</u>	<u>801,452</u>	<u>296,328</u>
<u>Business-Type Activities:</u>				
Water	1,798,315	2,238,796	3,720	-
Electric	175,196	190,564	-	-
Total business-type activities	<u>1,973,511</u>	<u>2,429,360</u>	<u>3,720</u>	<u>-</u>
Total primary government	<u>\$ 10,408,325</u>	<u>\$ 5,687,555</u>	<u>\$ 805,172</u>	<u>\$ 296,328</u>

General revenues:
Property taxes levied for:
 General purposes
 Police and fire
Municipal income tax levied for:
 General purposes
 Capital improvements
 Debt services
Grants and entitlements not restricted to specific programs
Investment earnings
Other
Total general revenues

Change in net position

Net position, beginning of year
Net position, end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,014,176)	\$ -	\$ (1,014,176)
(1,592,746)	-	(1,592,746)
(734,819)	-	(734,819)
74,747	-	74,747
(135,809)	-	(135,809)
(186,756)	-	(186,756)
(497,540)	-	(497,540)
112,056	-	112,056
(103,796)	-	(103,796)
<u>(4,078,839)</u>	<u>-</u>	<u>(4,078,839)</u>
-	444,201	444,201
-	15,368	15,368
<u>-</u>	<u>459,569</u>	<u>459,569</u>
<u>(4,078,839)</u>	<u>459,569</u>	<u>(3,619,270)</u>
256,313	-	256,313
617,113	-	617,113
2,240,861	-	2,240,861
218,625	-	218,625
391,000	-	391,000
236,138	-	236,138
22,082	-	22,082
200,717	-	200,717
<u>4,182,849</u>	<u>-</u>	<u>4,182,849</u>
104,010	459,569	563,579
<u>11,654,675</u>	<u>8,154,842</u>	<u>19,809,517</u>
<u>\$ 11,758,685</u>	<u>\$ 8,614,411</u>	<u>\$ 20,373,096</u>

City of Huron, Ohio

Balance Sheet

Governmental Funds

December 31, 2017

	General	Fire Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in pooled cash and cash equivalents	\$ 1,272,186	\$ 400,082	\$ 50,642	\$ 1,178,581	\$ 2,441,688	\$ 5,343,179
Cash and cash equivalents:						
In segregated accounts	-	-	-	-	118,607	118,607
Receivables:						
Income tax	440,047	-	-	-	-	440,047
Property and other taxes	262,413	571,412	-	-	87,427	921,252
Accounts	72,706	376,564	-	-	35,701	484,971
Special assessments	-	-	141,201	-	-	141,201
Accrued interest	11,690	-	-	-	480	12,170
Intergovernmental	77,396	36,612	-	-	202,512	316,520
Materials and supplies inventory	-	-	-	-	8,044	8,044
Prepaid items	12,353	11,988	-	-	5,490	29,831
Total assets	<u>\$ 2,148,791</u>	<u>\$ 1,396,658</u>	<u>\$ 191,843</u>	<u>\$ 1,178,581</u>	<u>\$ 2,899,949</u>	<u>\$ 7,815,822</u>
Liabilities, deferred inflows of resources and fund balances:						
Liabilities:						
Accounts payable	\$ 90,009	\$ 9,026	\$ -	\$ 154,359	\$ 95,170	\$ 348,564
Contracts payable	-	-	-	189,674	-	189,674
Accrued wages and benefits	69,083	40,373	-	-	20,095	129,551
Pension obligation payable	9,728	1,169	-	-	54,639	65,536
Due to other governments	3,637	2,931	-	-	8,912	15,480
Income tax refunds payable	44,311	-	-	-	-	44,311
Total liabilities	<u>216,768</u>	<u>53,499</u>	<u>-</u>	<u>344,033</u>	<u>178,816</u>	<u>793,116</u>
Deferred inflows of resources:						
Property taxes	243,921	533,649	-	-	80,823	858,393
Unavailable revenue	224,119	140,961	141,201	-	133,201	639,482
Unavailable revenue - delinquent property taxes	3,744	7,636	-	-	1,337	12,717
Total deferred inflows of resources	<u>471,784</u>	<u>682,246</u>	<u>141,201</u>	<u>-</u>	<u>215,361</u>	<u>1,510,592</u>
Fund balances:						
Nonspendable	12,353	11,988	-	-	13,534	37,875
Restricted	-	648,925	50,642	834,548	1,832,740	3,366,855
Committed	210,857	-	-	-	659,498	870,355
Assigned	15,562	-	-	-	-	15,562
Unassigned	1,221,467	-	-	-	-	1,221,467
Total fund balances	<u>1,460,239</u>	<u>660,913</u>	<u>50,642</u>	<u>834,548</u>	<u>2,505,772</u>	<u>5,512,114</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,148,791</u>	<u>\$ 1,396,658</u>	<u>\$ 191,843</u>	<u>\$ 1,178,581</u>	<u>\$ 2,899,949</u>	<u>\$ 7,815,822</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2017**

Total governmental fund balances \$ 5,512,114

*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 funds. 17,203,622

An internal service fund is used by management to charge the costs of insurance to individual
funds. The assets and liabilities of the internal service fund are included in governmental
activities in the statement of net position. 265,888

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

Property and other taxes	\$ 12,717	
Income taxes	136,887	
Intergovernmental	221,837	
Special assessments	141,201	
Charges for services	104,349	
Other	35,208	
Total	<u>652,199</u>	652,199

The net pension liability is not due and payable in the current period; therefore, the liability and
related deferred inflows/outflows are not reported in the funds:

Deferred outflows - pension	\$ 1,594,585	
Deferred inflows - pension	(176,326)	
Net pension liability	<u>(7,187,747)</u>	
Total		(5,769,488)

Accrued interest payable is not due and payable in the current period and therefore is not
reported in the funds. (34,256)

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

General obligation bonds	\$ (1,983,600)	
Long-term notes	(3,303,000)	
Unamortized premium on bonds	(13,106)	
Capital lease payable	(186,738)	
Lease-purchase loan	(88,491)	
Compensated absences	<u>(496,459)</u>	
Total		<u>(6,071,394)</u>

Net position of governmental activities \$ 11,758,685

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	General	Fire Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:						
Income tax	\$ 2,171,065	\$ -	\$ 391,000	\$ 218,625	\$ -	\$ 2,780,690
Property and other taxes	256,649	526,285	-	-	91,652	874,586
Charges for services	824,206	1,071,269	-	-	425,950	2,321,425
Licenses and permits	225,882	-	-	-	-	225,882
Fines and forfeitures	290,862	-	-	-	95,033	385,895
Intergovernmental	174,054	73,260	-	291,828	854,734	1,393,876
Special assessments	-	-	21,148	-	211,736	232,884
Investment income	22,082	-	-	-	2,068	24,150
Other	184,552	777	-	3,800	105,399	294,528
Total revenue	4,149,352	1,671,591	412,148	514,253	1,786,572	8,533,916
Expenditures:						
Current:						
General government	1,404,307	-	11,958	57,410	37,809	1,511,484
Security of persons and property:						
Police	1,237,038	-	-	-	276,401	1,513,439
Fire	25,094	1,715,499	-	-	29,528	1,770,121
Other	-	-	-	-	136,846	136,846
Transportation	-	-	-	218,806	458,866	677,672
Refuse	678,458	-	-	-	-	678,458
Leisure time activities	3,093	-	-	209,296	653,562	865,951
Economic development and assistance	-	-	-	-	222,040	222,040
Capital outlay	10,593	-	-	945,188	127,433	1,083,214
Debt service:						
Principal retirement	-	-	3,567,200	65,352	43,217	3,675,769
Interest and fiscal charges	-	-	96,229	8,106	1,519	105,854
Total expenditures	3,358,583	1,715,499	3,675,387	1,504,158	1,987,221	12,240,848
Excess of revenues over (under) expenditures	790,769	(43,908)	(3,263,239)	(989,905)	(200,649)	(3,706,932)
Other financing sources (uses):						
Notes issued	-	-	3,303,000	-	-	3,303,000
Premium on debt issued	-	-	10,239	-	-	10,239
Transfers - in	63,750	200,000	-	440,000	1,008,448	1,712,198
Transfers - out	(1,586,212)	(42,500)	-	-	(83,486)	(1,712,198)
Total other financing sources (uses)	(1,522,462)	157,500	3,313,239	440,000	924,962	3,313,239
Net change in fund balance	(731,693)	113,592	50,000	(549,905)	724,313	(393,693)
Fund balances at beginning of year	2,191,932	547,321	642	1,384,453	1,781,459	5,905,807
Fund balances at end of year	\$ 1,460,239	\$ 660,913	\$ 50,642	\$ 834,548	\$ 2,505,772	\$ 5,512,114

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017**

Net change in fund balances - Total governmental funds \$ (393,693)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital outlay	\$ 1,083,214	
Depreciation expense	(569,170)	
Excess of capital outlay over depreciation expense		514,044

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

Property and other taxes	\$ (1,160)	
Income taxes	69,796	
Intergovernmental	(67,418)	
Special assessments	(21,148)	
Charges for services	8,673	
Other	16,165	
Net change in deferred inflows of resources during the year		4,908

Contractually required pension contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows. 470,419

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (978,736)

Some items 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. These activities consist of:

Decrease in compensated absences	\$ 13,582	
Increase in accrued interest	(12,930)	
Total additional expenditures		652

The internal service fund used by management to charge the costs of dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. 108,898

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,567,200

Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 108,569

The issuance of notes resulted in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net assets as liabilities. (3,303,000)

The amortization of bond premium is reflected as an expense in the statement of activities. 4,749

Change in net position of governmental activities \$ 104,010

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2017**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 2,900,000	\$ 2,900,000	\$ 2,819,683	\$ (80,317)
Property and other taxes	245,043	250,622	250,609	(13)
Charges for services	744,000	824,020	823,007	(1,013)
Licenses and permits	190,500	229,057	228,164	(893)
Fines and forfeitures	323,500	298,000	290,862	(7,138)
Intergovernmental	168,861	179,478	174,228	(5,250)
Investment income	50,000	53,000	48,099	(4,901)
Other	96,700	187,035	181,551	(5,484)
Total revenue	<u>4,718,604</u>	<u>4,921,212</u>	<u>4,816,203</u>	<u>(105,009)</u>
<u>Expenditures:</u>				
Current:				
General government	1,407,095	1,599,162	1,378,539	220,623
Security of persons and property:				
Police	1,299,786	1,296,615	1,242,562	54,053
Basic utility services	658,000	668,400	666,823	1,577
Total expenditures	<u>3,364,881</u>	<u>3,564,177</u>	<u>3,287,924</u>	<u>276,253</u>
Excess of revenues over expenditures	<u>1,353,723</u>	<u>1,357,035</u>	<u>1,528,279</u>	<u>171,244</u>
<u>Other financing sources (uses):</u>				
Sale of capital assets	-	1,600	1,600	-
Transfers - out	(1,371,954)	(2,408,275)	(2,408,275)	-
Total other financing sources (uses)	<u>(1,371,954)</u>	<u>(2,406,675)</u>	<u>(2,406,675)</u>	<u>-</u>
Net change in fund balance	(18,231)	(1,049,640)	(878,396)	171,244
Fund balance at beginning of year	1,891,021	1,891,021	1,891,021	-
Prior year encumbrances appropriated	26,650	26,650	26,650	-
Fund balance at end of year	<u>\$ 1,899,440</u>	<u>\$ 868,031</u>	<u>\$ 1,039,275</u>	<u>\$ 171,244</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final Budget		
<u>Revenues:</u>				
Property and other taxes	\$ 492,480	\$ 513,538	\$ 513,598	\$ 60
Charges for services	1,083,284	1,083,284	904,599	(178,685)
Intergovernmental	75,000	75,000	73,260	(1,740)
Other	-	777	777	-
Total revenue	<u>1,650,764</u>	<u>1,672,599</u>	<u>1,492,234</u>	<u>(180,365)</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>1,609,030</u>	<u>1,609,030</u>	<u>1,539,910</u>	<u>69,120</u>
Excess of revenues over (under) expenditures	<u>41,734</u>	<u>63,569</u>	<u>(47,676)</u>	<u>(111,245)</u>
<u>Other financing sources (uses):</u>				
Transfers - in	200,000	200,000	200,000	-
Transfers - out	<u>(235,700)</u>	<u>(235,700)</u>	<u>(235,700)</u>	<u>-</u>
Total other financing sources (uses)	<u>(35,700)</u>	<u>(35,700)</u>	<u>(35,700)</u>	<u>-</u>
Net change in fund balance	6,034	27,869	(83,376)	(111,245)
Fund balance at beginning of year	460,652	460,652	460,652	-
Prior year encumbrances appropriated	<u>8,844</u>	<u>8,844</u>	<u>8,844</u>	<u>-</u>
Fund balance at end of year	<u>\$ 475,530</u>	<u>\$ 497,365</u>	<u>\$ 386,120</u>	<u>\$ (111,245)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<u>Activities</u> <u>Internal Service</u>
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 1,655,574	\$ 213,034	\$ 1,868,608	\$ 111,065
Cash and cash equivalents:				
In segregated accounts	-	-	-	170,835
Receivables:				
Accounts	538,908	-	538,908	221
Special assessments	25,275	-	25,275	-
Materials and supplies inventory	107,680	-	107,680	-
Prepaid items	16,367	-	16,367	-
Total current assets	<u>2,343,804</u>	<u>213,034</u>	<u>2,556,838</u>	<u>282,121</u>
Noncurrent assets:				
Capital assets:				
Nondepreciable capital assets	422,867	126,155	549,022	-
Depreciable capital assets, net	7,486,445	102,436	7,588,881	-
Total noncurrent assets	<u>7,909,312</u>	<u>228,591</u>	<u>8,137,903</u>	<u>-</u>
Total assets	<u>10,253,116</u>	<u>441,625</u>	<u>10,694,741</u>	<u>282,121</u>
<u>Deferred outflows of resources:</u>				
Pension	375,282	7,658	382,940	-
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	16,986	22,057	39,043	5,459
Contracts payable	-	126,155	126,155	-
Accrued wages and benefits	25,720	484	26,204	1,873
Accrued pension	11,414	247	11,661	39
Due to other governments	1,707	100	1,807	178
Compensated absences payable	33,862	217	34,079	-
Accrued interest payable	977	-	977	-
Claims payable	-	-	-	8,684
OWDA loans payable	74,955	-	74,955	-
General obligation bonds payable	116,400	-	116,400	-
Total current liabilities	<u>282,021</u>	<u>149,260</u>	<u>431,281</u>	<u>16,233</u>
Long-term liabilities:				
Compensated absences payable	62,967	-	62,967	-
OWDA loans payable, net of current portion	541,256	-	541,256	-
General obligation bonds payable, net of current portion	473,537	-	473,537	-
Net pension liability	929,611	18,972	948,583	-
Total long-term liabilities	<u>2,007,371</u>	<u>18,972</u>	<u>2,026,343</u>	<u>-</u>
Total liabilities	<u>2,289,392</u>	<u>168,232</u>	<u>2,457,624</u>	<u>16,233</u>
<u>Deferred inflows of resources:</u>				
Pension	5,533	113	5,646	-
<u>Net position:</u>				
Net investment in capital assets	6,703,164	228,591	6,931,755	-
Unrestricted	1,630,309	52,347	1,682,656	265,888
Total net position	<u>\$ 8,333,473</u>	<u>\$ 280,938</u>	<u>\$ 8,614,411</u>	<u>\$ 265,888</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<u>Activities</u> <u>Internal Service</u>
<u>Operating revenues:</u>				
Charges for services	\$ 2,215,582	\$ 190,564	\$ 2,406,146	\$ 846,449
Other	23,214	-	23,214	16,078
Total operating revenue	<u>2,238,796</u>	<u>190,564</u>	<u>2,429,360</u>	<u>862,527</u>
<u>Operating expenses:</u>				
Personal services	750,153	14,116	764,269	54,710
Fringe benefits	274,885	4,930	279,815	9,803
Contractual services	326,797	152,175	478,972	572,040
Supplies and materials	174,689	-	174,689	-
Claims	-	-	-	117,076
Other operating costs	1,967	-	1,967	-
Depreciation	241,081	3,975	245,056	-
Total operating expenses	<u>1,769,572</u>	<u>175,196</u>	<u>1,944,768</u>	<u>753,629</u>
Operating income	<u>469,224</u>	<u>15,368</u>	<u>484,592</u>	<u>108,898</u>
<u>Nonoperating revenue (expenses):</u>				
Intergovernmental	3,720	-	3,720	-
Interest and fiscal charges	(28,743)	-	(28,743)	-
Total nonoperating revenues (expenses)	<u>(25,023)</u>	<u>-</u>	<u>(25,023)</u>	<u>-</u>
Change in net position	444,201	15,368	459,569	108,898
Net position at beginning of year	<u>7,889,272</u>	<u>265,570</u>	<u>8,154,842</u>	<u>156,990</u>
Net position at end of year	<u>\$ 8,333,473</u>	<u>\$ 280,938</u>	<u>\$ 8,614,411</u>	<u>\$ 265,888</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Electric	Total	Activities Internal Service
Cash flows from operating activities:				
Cash received from customers	\$ 2,210,336	\$ 190,564	\$ 2,400,900	\$ 862,306
Cash payments for personal services	(893,565)	(17,337)	(910,902)	(64,240)
Cash payments for contractual services	(328,020)	(19,914)	(347,934)	(568,279)
Cash payments to suppliers for goods and services	(178,528)	-	(178,528)	-
Cash payments for claims	-	-	-	(118,098)
Net cash provided by operating activities	<u>810,223</u>	<u>153,313</u>	<u>963,536</u>	<u>111,689</u>
Cash flows from noncapital financing activities:				
Cash payments from subsidy	3,720	-	3,720	-
Net cash provided by noncapital financing activities	<u>3,720</u>	<u>-</u>	<u>3,720</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Subsidy from state and federal grants	171,321	-	171,321	-
Issuance of loans	502,759	-	502,759	-
Interest paid on bonds, loans and leases	(31,968)	-	(31,968)	-
Principal payment on bonds, loans and leases	(258,977)	-	(258,977)	-
Acquisition of capital assets	(1,046,750)	(126,155)	(1,172,905)	-
Net cash used for capital and related financing activities	<u>(663,615)</u>	<u>(126,155)</u>	<u>(789,770)</u>	<u>-</u>
Net increase in cash and cash equivalents	150,328	27,158	177,486	111,689
Cash and cash equivalents at beginning of year	1,505,246	185,876	1,691,122	170,211
Cash and cash equivalents at end of year	<u>\$ 1,655,574</u>	<u>\$ 213,034</u>	<u>\$ 1,868,608</u>	<u>\$ 281,900</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 469,224	\$ 15,368	\$ 484,592	\$ 108,898
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	241,081	3,975	245,056	-
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(33,286)	-	(33,286)	(221)
Special assessments receivable	4,826	-	4,826	-
Materials and supplies inventory	19,196	-	19,196	-
Prepaid items	(3,099)	-	(3,099)	-
Increase in deferred outflows of resources - pension	(117,682)	(2,352)	(120,034)	-
Increase (decrease) in liabilities:				
Accounts payable	(12,013)	6,106	(5,907)	3,761
Contracts payable	(7,367)	126,155	118,788	-
Claims payable	-	-	-	(1,022)
Accrued pension	569	(1)	568	(41)
Accrued wages and benefits	6,097	98	6,195	185
Compensated absences	3,313	(79)	3,234	-
Due to other governments	845	100	945	129
Net pension liability	246,157	4,115	250,272	-
Increase in deferred inflows of resources - pension	(7,638)	(172)	(7,810)	-
Net cash provided by operating activities	<u>\$ 810,223</u>	<u>\$ 153,313</u>	<u>\$ 963,536</u>	<u>\$ 111,689</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2017

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 40,719
Cash and cash equivalents in segregated accounts	<u>8,673</u>
Total assets	<u><u>\$ 49,392</u></u>
<u>Liabilities:</u>	
Accounts payable	\$ 801
Due to other governments	8,673
Undistributed monies	<u>39,918</u>
Total liabilities	<u><u>\$ 49,392</u></u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The City of Huron (the “City”) is a home rule municipal corporation, established under the laws of the State of Ohio and operated under its own charter. The City operates under a part-time council and full-time City Manager form of government. The Mayor and Council are elected.

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

The City provides various services including police protection, fire fighting and prevention, health, parks and recreation, street maintenance, planning and zoning, water services, municipal court and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City, as the primary government, is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization; or 2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City doesn’t have any component units.

The City is associated with organizations which are defined as a jointly governed organization and a public entity risk pool. These organizations include the Huron Area Joint Recreation District and the Public Entities Pool of Ohio (PEP). These organizations are presented in Notes 14 and 15 to the basic financial statements.

B. Basis of Presentation

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City 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 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 recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenue, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

C. Fund Accounting

The City is organized and operated on the basis of funds. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City’s major governmental funds:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

General Fund This fund is used to account 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 general laws of Ohio.

Fire Levy Fund This fund is used to account for financial resources to be used for Fire department.

General Obligation Bond Retirement Fund This fund is used for transfers from the general fund income tax revenue restricted to pay for general obligation bond debt.

Capital Improvement Fund This fund is used for the purpose of improving, constructing, maintaining and purchasing those items necessary to enhance the operation of the City.

Proprietary Funds – Proprietary funds are used to account for the City’s ongoing organizations and activities which are similar to those found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this approach, the focus is upon the determination of net income, financial position and cash flows. Proprietary funds are classified either enterprise or internal service:

Enterprise Funds The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The water and electric funds are the City’s major proprietary funds. These funds account for the revenues and expenses of the City owned water system and electricity provided by the City to an industrial park.

Internal Service Funds The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The health care fund accounts for the employees’ health care benefits. The computer repair fund accounts for the computer repairs of the City.

Fiduciary Funds – Fiduciary funds 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 custodial in nature (assets equal liabilities) and do not involve measurement if results of operations. The City’s agency funds account for highway patrol, unclaimed money, Huron Area Joint Recreation and municipal court collections that are distributed to various local governments.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all liabilities, deferred outflows of resources 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 (i.e., revenues) and decreases (i.e., 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 resources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

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

Revenue – Exchange and Nonexchange Transaction – 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 fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year end.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Nonexchange transactions are transactions in which the City receives value without directly giving equal value in return, including income taxes, estate taxes, motel-hotel taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal 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 the nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charge on refunding and for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenues. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported 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, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows 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. (See Note 12)

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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 the governmental funds.

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget – During the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the first and final amended official certificate of estimated resources issued during 2017.

Appropriations – A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level for all funds. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within each fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the first and final appropriation amounts, including all amendments and modifications.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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 re-appropriated.

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 control.

G. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary 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 balance sheet. The City has segregated bank accounts for monies held separate from the City's central bank account. These interest-bearing depository accounts are presented on the statement of net position as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury. A portion of the cash of the healthcare, Huron Rescue Squad, and indigent alcohol treatment funds are included in this line item as well as the entire balance of the municipal courts.

For purpose of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that were not purchased from the pool are reported as investments.

H. Materials and Supplies Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when used. Inventories of the proprietary funds are expensed when used.

Inventory consists of expendable supplies held for consumption.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain capital assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are recorded at their acquisition values as of the date received. The City's infrastructure, was phased in, and consists of roads, guardrails, bridges, water lines, sewer lines and storm water drainage. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized. The City maintains a capitalization threshold of \$5,000.

All reported capital assets are depreciated except for land and construction in progress. Depreciation of water lines, equipment, and vehicles in the proprietary fund type is computed using the straight-line method over an estimated useful life. Improvements to proprietary fund type capital assets are depreciated over the remaining useful lives of the related proprietary fund type capital assets. The estimated useful lives are as follows:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings and improvements	10-20 years	10-20 years
Equipment, furniture and vehicles	5-10 years	5-10 years
Land improvements	10-20 years	10-20 years
Infrastructure	40 years	40 years

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2017, interest costs incurred on construction projects were not material.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

J. Net pension liability and pension expense

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.

The current accounting standard requires Cities to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the City. However, the City is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The City has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

K. Compensated Absences

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2017. 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 employees the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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

L. 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 in 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, compensated absences, special termination benefits and the net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

M. Interfund Transactions

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

During the normal course of operations, the City has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in the governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are treated similarly when involving other funds of the City.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivable/interfund payable” for the current portion of interfund loans or advances to/from other funds for the noncurrent portion of interfund loans. These amounts are eliminated in the Statement of Net Position, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”.

Long-term advances between funds, as reported in the governmental fund financial statements, are often offset by a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

N. Fund Balance

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

Nonspendable 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. It also includes the long-term amount of interfund loans.

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 fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. 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 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. In addition, the Director of Finance is authorized to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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.

O. 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 the water, electric, and self-insurance program. Operating expenses are necessary costs incurred to provide the goods and services that is the primary activity of the fund.

P. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment of 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 there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Q. Estimates

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

R. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the in the year in which it was consumed.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 2 – 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 basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP) and Actual presented for the general fund and fire levy fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the GAAP are:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances are treated as expenditures/expenses for all funds (budget) rather than an assigned fund balance for governmental fund types (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis financial statements to the budgetary basis financial statements for the general, and fire levy funds.

Net Change in Fund Balances

	General Fund	Fire Levy Fund
GAAP basis	\$ (731,693)	\$ 113,592
Revenue accruals	668,451	(179,357)
Expense accruals	(623,021)	(3,649)
Perspective difference from fund budgeted as special revenue fund:		
Expenditures	47,919	-
Transfers from other funds	(63,750)	-
Transfers from general fund	(150,938)	-
Encumbrances (budget basis) outstanding at year end	<u>(25,364)</u>	<u>(13,962)</u>
Budget basis	<u>\$ (878,396)</u>	<u>\$ (83,376)</u>

NOTE 3 – Fund Balance

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

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Fund Balances	<u>General</u>	<u>Fire Levy</u>	<u>General Obligation Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable</u>						
Materials and supplies inventory	\$ -	\$ -	\$ -	\$ -	\$ 8,044	\$ 8,044
Prepays	<u>12,353</u>	<u>11,988</u>	<u>-</u>	<u>-</u>	<u>5,490</u>	<u>29,831</u>
Total nonspendable	<u>12,353</u>	<u>11,988</u>	<u>-</u>	<u>-</u>	<u>13,534</u>	<u>37,875</u>
<u>Restricted for</u>						
Streets and highways	-	-	-	-	451,302	451,302
Economic development	-	-	-	-	552,290	552,290
Recreation	-	-	-	-	27,024	27,024
Fire and EMS services	-	648,925	-	-	161,594	810,519
Capital improvements	-	-	-	834,548	57,085	891,633
Marine patrol	-	-	-	-	2,578	2,578
Debt service payments	-	-	50,642	-	-	50,642
Court activities	-	-	-	-	491,216	491,216
Police services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,651</u>	<u>89,651</u>
Total restricted	<u>-</u>	<u>648,925</u>	<u>50,642</u>	<u>834,548</u>	<u>1,832,740</u>	<u>3,366,855</u>
<u>Committed</u>						
Recreation	-	-	-	-	195,292	195,292
Capital improvements	-	-	-	-	421,284	421,284
Stormwater system	-	-	-	-	42,922	42,922
Employee retirements	<u>210,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,857</u>
Total committed	<u>210,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>659,498</u>	<u>870,355</u>
<u>Assigned</u>						
Encumbrances	<u>15,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,562</u>
Unassigned	<u>1,221,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,221,467</u>
Total fund balances	<u>\$ 1,460,239</u>	<u>\$ 660,913</u>	<u>\$ 50,642</u>	<u>\$ 834,548</u>	<u>\$ 2,505,772</u>	<u>\$ 5,512,114</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 4 – Deposits and Investments

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

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

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

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

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

1. U.S. treasury notes, bills, bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or 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 services shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase and reverse repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio)

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the federal deposit insurance corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

During 2017, investments were limited to certificates of deposit.

A. Undeposited Cash

At year-end, the City had \$3,085 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government.

These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The City's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of December 31, the carrying amount of the City's deposits was \$4,765,910 and the bank balance was \$4,746,124. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2017, none of the City's bank balance was exposed to custodial credit risk as described above.

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

C. Investments

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

Investment Type	Fair Value	Percentage of Investment	Maturity		
			< 1 year	< 2 years	< 3-5 years
Negotiable certificates of deposits:					
BMW Bank NA UT US	\$ 249,314	8.62%	\$ -	\$ 101,979	\$ 147,335
Capital One BK VA US	331,523	11.46%	-	100,075	231,448
Comenity Bank DE US	198,526	6.86%	-	99,663	98,863
Discover Bank DE US	150,252	5.19%	-	150,252	-
Goldman Sachs Bank US	200,166	6.92%	100,017	100,149	-
HSBC Bank USA NA VA US	238,493	8.24%	-	-	238,493
JP Morgan Chase Bank DE US	198,074	6.85%	-	-	198,074
Synchrony BK UT US	138,218	4.78%	-	138,218	-
Wells Fargo BK NA SD US	194,106	6.71%	-	-	194,106
World's Foremost B NE US	198,926	6.88%	-	-	198,926
Zions First National Bank UT US	177,305	6.13%	-	-	177,305
All other certificates of deposits	617,788	21.36%	-	300,548	317,240
	<u>\$ 2,892,691</u>		<u>\$ 100,017</u>	<u>\$ 990,884</u>	<u>\$ 1,801,790</u>

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 preceding table identifies the City's recurring fair value measurement as of December 31, 2017. All investments of the City are valued using quoted market prices (Level 1 inputs).

All of the City's negotiable certificates of deposit are registered securities and covered in full by FDIC insurance. The City's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. The table above lists the CDs that are individually greater than 5% per issuer, all other CDs total 21.36% of the City investments but per issuer are individually less than 5% of the City's investments. Investments are in fully insured negotiable CDs making up 100% of all investments. The City's policy places no limit on the amount that may be invested in any one issuer.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$22,082, which includes \$19,164 assigned from other City funds.

NOTE 5 – Taxes

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of the 2016 taxes. Property tax payments received during 2017 for tangible personal property (other than public utility property) is for 2017 taxes.

2017 real property taxes are levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2017 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2017 was \$4.9 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2017 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
<u>Real property</u>		
Residential and agricultural	\$ 171,587,450	86.6%
Commercial and industrial	22,206,070	11.2%
Public Utilities	198,550	0.1%
<u>Tangible personal property</u>		
Public Utilities	<u>4,247,920</u>	<u>2.1%</u>
Total	<u>\$ 198,239,990</u>	<u>100.0%</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

B. Income Taxes

The City levies a municipal income tax of one percent on substantially all income earned within the City: in addition, residents are required to pay tax on income earned outside of the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual tax payers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purpose of general municipal operations, maintenance, new equipment, extension, and enlargement of municipal services and facilities and capital improvements of the City. In 2017, the proceeds were allocated to the general, general obligation bond retirement and capital improvement funds.

NOTE 6 – Receivables

Receivables at December 31, 2017 consisted of taxes, accounts (billing for user charged services), due from other governments (intergovernmental), special assessments and interest on investments. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items due from other governments (intergovernmental) follows:

	Governmental <u>Activities</u>
Due from other governments:	
Local government funding	\$ 53,669
Homestead and rollbacks	61,294
Gas and motor vehicle taxes	195,949
Other	<u>5,608</u>
Total	<u>\$ 316,520</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 7 – Capital Assets

Governmental Activities A summary of the governmental activities’ capital asset activity as of December 31, 2017 are as follows:

<u>Governmental activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 6,143,390	\$ 70,763	\$ -	\$ 6,214,153
Land use rights	49,687	-	-	49,687
Construction in progress	<u>727,135</u>	<u>587,251</u>	<u>(396,149)</u>	<u>918,237</u>
Total capital assets, not being depreciated	<u>6,920,212</u>	<u>658,014</u>	<u>(396,149)</u>	<u>7,182,077</u>
Capital assets, being depreciated:				
Land improvements	6,413,387	287,717	-	6,701,104
Buildings and improvements	3,324,086	56,113	-	3,380,199
Equipment and furniture	1,468,111	18,196	-	1,486,307
Vehicles	2,040,010	-	(43,615)	1,996,395
Infrastructure	<u>3,193,824</u>	<u>459,323</u>	<u>-</u>	<u>3,653,147</u>
Total capital assets, being depreciated	<u>16,439,418</u>	<u>821,349</u>	<u>(43,615)</u>	<u>17,217,152</u>
Less accumulated depreciation:				
Land improvements	(2,723,426)	(255,846)	-	(2,979,272)
Buildings and improvements	(1,366,929)	(73,388)	-	(1,440,317)
Equipment and furniture	(1,059,763)	(42,918)	-	(1,102,681)
Vehicles	(1,332,092)	(135,352)	43,615	(1,423,829)
Infrastructure	<u>(187,842)</u>	<u>(61,666)</u>	<u>-</u>	<u>(249,508)</u>
Total accumulated depreciation	<u>(6,670,052)</u>	<u>(569,170)</u>	<u>43,615</u>	<u>(7,195,607)</u>
Total capital assets being depreciated, net	<u>9,769,366</u>	<u>252,179</u>	<u>-</u>	<u>10,021,545</u>
Governmental activities capital assets, net	<u>\$ 16,689,578</u>	<u>\$ 910,193</u>	<u>\$ (396,149)</u>	<u>\$ 17,203,622</u>

Depreciation Expense Depreciation expense charged to governmental functions for the year ending December 31, 2017 is as follows:

	<u>Amount</u>
General government	\$ 45,109
Security of persons and property:	
Police	30,766
Fire	44,327
Leisure time activities	176,538
Transportation	<u>272,430</u>
Total governmental activities depreciation expense	<u>\$ 569,170</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Business-Type Activities A summary of the business-type activities' capital assets as of December 31, 2017 are as follows:

<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	<u>141,801</u>	<u>1,111,284</u>	<u>(734,063)</u>	<u>519,022</u>
Total capital assets, not being depreciated	<u>171,801</u>	<u>1,111,284</u>	<u>(734,063)</u>	<u>549,022</u>
Capital assets, being depreciated:				
Land improvements	106,714	-	-	106,714
Buildings and improvements	2,732,123	-	-	2,732,123
Equipment and furniture	1,772,845	25,940	-	1,798,785
Vehicles	309,461	22,686	-	332,147
Infrastructure				
Water	5,467,021	747,058	-	6,214,079
Electric	<u>131,955</u>	<u>-</u>	<u>-</u>	<u>131,955</u>
Total capital assets, being depreciated	<u>10,520,119</u>	<u>795,684</u>	<u>-</u>	<u>11,315,803</u>
Less accumulated depreciation:				
Land improvements	(79,276)	(7,532)	-	(86,808)
Buildings and improvements	(1,143,863)	(57,756)	-	(1,201,619)
Equipment and furniture	(310,291)	(48,942)	-	(359,233)
Vehicles	(237,088)	(15,201)	-	(252,289)
Infrastructure				
Water	(1,685,804)	(111,650)	-	(1,797,454)
Electric	<u>(25,544)</u>	<u>(3,975)</u>	<u>-</u>	<u>(29,519)</u>
Total accumulated depreciation	<u>(3,481,866)</u>	<u>(245,056)</u>	<u>-</u>	<u>(3,726,922)</u>
Total capital assets being depreciated, net	<u>7,038,253</u>	<u>550,628</u>	<u>-</u>	<u>7,588,881</u>
Business-type activities capital assets, net	<u>\$ 7,210,054</u>	<u>\$ 1,661,912</u>	<u>\$ (734,063)</u>	<u>\$ 8,137,903</u>

The electric fund's depreciation expense is all reported within infrastructure. The remaining depreciation is reported within the water fund.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 8 – Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Vacation leave is earned at rates that vary depending upon length of service and standard workweek. Vacation accumulation is limited to a maximum of one hundred sixty days. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at the rate of 1.25 workdays with pay for each month of completed service. Sick leave is paid upon retirement based on accumulated hours with the restriction of a maximum of 480 hours.

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability.

As of December 31, 2017 the liability for long-term unpaid compensated absences was \$496,459 for the governmental activities, which would be paid from the general fund, the employee benefit fund, and parks, recreation, boat basin, street maintenance and state highway, special fire levy, street lighting, police grants, and probation special revenue funds and liability for long-term unpaid compensated absences for business-type activities was \$97,046, which would be paid from the water and electric funds.

NOTE 9 – Long-term Obligations

Governmental Activities A summary of the governmental activities' debt and other long-term obligations as of December 31, 2017 are as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds</u>					
2015 Various purpose bonds, 2.25% - 3.75%, maturing 2030	\$ 1,225,000	\$ -	\$ (90,000)	\$ 1,135,000	\$ 90,000
2012 Various purpose refunding, 2.00% - 2.10%, maturing 2023	1,022,800	-	(174,200)	848,600	168,600
Premium on bonds	17,855	-	(4,749)	13,106	-
Total general obligation bonds	<u>2,265,655</u>	<u>-</u>	<u>(268,949)</u>	<u>1,996,706</u>	<u>258,600</u>
<u>Long-term notes</u>					
2016 Various Purpose Notes, 1.11%	3,303,000	-	(3,303,000)	-	-
2017 Various Purpose Notes, 2%	-	3,303,000	-	3,303,000	-
Total long-term notes	<u>3,303,000</u>	<u>3,303,000</u>	<u>(3,303,000)</u>	<u>3,303,000</u>	<u>-</u>
<u>Other obligations</u>					
Capital leases	267,452	-	(80,714)	186,738	59,589
Lease-purchase loan	116,346	-	(27,855)	88,491	28,661
Compensated absences	510,041	176,451	(190,033)	496,459	166,681
Net pension liability:					
OPERS	1,236,993	524,660	-	1,761,653	-
OP&F	5,677,011	-	(250,917)	5,426,094	-
Total net pension liability	<u>6,914,004</u>	<u>524,660</u>	<u>(250,917)</u>	<u>7,187,747</u>	<u>-</u>
Total governmental activities	<u>\$ 13,376,498</u>	<u>\$ 4,004,111</u>	<u>\$ (4,121,468)</u>	<u>\$ 13,259,141</u>	<u>\$ 513,531</u>

Business-type Activities A summary of the business-type activities' debt and other long-term obligations as of December 31, 2017 are as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

<u>Business-type activities</u>	Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
<u>General obligation bonds</u>					
2012 Various purpose refunding, 2.00% - 2.10%, maturing 2023	\$ 702,200	\$ -	\$ (120,800)	\$ 581,400	\$ 116,400
Premium on bonds	11,561	-	(3,024)	8,537	-
Total general obligation bonds	<u>713,761</u>	<u>-</u>	<u>(123,824)</u>	<u>589,937</u>	<u>116,400</u>
<u>Loans</u>					
Ohio Water Development Authority:					
Chaska Beach, 6.63%, due 2017	28,411	-	(28,411)	-	-
Water projects, 5.66%, due 2019	184,392	-	(70,940)	113,452	74,955
Water Plant Shoreline, 2.64%	-	1,744	-	1,744	-
Oklahoma Water Line, 2.64%	-	501,015	-	501,015	-
Total loans	<u>212,803</u>	<u>502,759</u>	<u>(99,351)</u>	<u>616,211</u>	<u>74,955</u>
<u>Other obligations</u>					
Capital lease	38,826	-	(38,826)	-	-
Compensated absences	93,812	37,996	(34,762)	97,046	34,079
Net pension liability:					
Water	683,454	246,157	-	929,611	-
Electric	14,857	4,115	-	18,972	-
Total net pension liability	<u>698,311</u>	<u>250,272</u>	<u>-</u>	<u>948,583</u>	<u>-</u>
Total business-type activities	<u>\$ 1,757,513</u>	<u>\$ 791,027</u>	<u>\$ (296,763)</u>	<u>\$ 2,251,777</u>	<u>\$ 225,434</u>

2012 Various Purpose Refunding Bonds: During September 2012, the City issued \$3,180,000 in refunding general obligation bonds with interest rates from 2.0% to 2.1% in order to refund \$3,590,000 of various bonds and a note outstanding. In addition to the proceeds of the new bonds the City paid an additional \$495,676, which was reported as a debt service expenditure in the general obligation bond retirement fund and a reduction of a liability in the water fund. The net proceeds of \$3,163,344 (after payment of \$106,573 in underwriting fees, insurance, and other issuance costs) was deposited into an irrevocable trust with an escrow agent to provide for debt service payments of the bonds refunded. As a result of this issue, the old bonds were called for redemption in December 2012 and subsequently repaid.

The City refunded the old bonds to reduce its total debt service payments over the following 11 years by \$304,225 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$275,232.

In July 2015, the City issued \$1,385,000 in general obligation bonds for the purpose of renovating and improving city hall, constructing a recreational bicycle and walkway path and various other infrastructure improvements. The bonds have interest rates varying between 2.25 - 3.75 percent and are due on December 1, 2030.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

During 2017, the City issued \$3,303,000 in various purpose bond anticipation notes which are due January 23, 2018. Revenues for payment of interest and principal on the notes will result from proceeds from a new bond to be issued in 2018.

During 2015, the City entered into a lease-purchase loan agreement for the purchase of a truck with a plow package in the amount of \$143,419. The loan will be paid annually with the first principal payment due November 15, 2016. The loan carries an interest rate of 2.89%.

General obligation bonds will be paid from money transferred to the debt service fund as well as user charges from the appropriate enterprise fund. The Ohio Water Development Authority (OWDA) loans will be paid partly with special assessments levied against the benefited property owners, as well as user charges from the appropriate enterprise fund. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

In prior years and in the current year, the City entered into contractual agreements for new construction loans from OWDA. Under the terms of these agreements, OWDA reimbursed, advanced or directly paid the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. A line of credit has been established for various projects. Not all loans were finalized at year end. The 2017 OWDA loans in the water fund are in the early planning stage and are not included in the amortization tables below.

The City pays net pension liability obligations from the fund benefitting from employee services.

Governmental activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

	2015 Various Purpose <u>Bonds</u>		2012 Various Purpose <u>Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 90,000	\$ 35,632	\$ 168,600	\$ 17,086
2019	90,000	33,606	140,000	13,714
2020	105,000	31,582	149,000	10,914
2021	100,000	29,219	142,000	7,934
2022	100,000	26,094	135,000	5,094
2023-2027	430,000	82,812	114,000	2,394
2028-2030	220,000	16,687	-	-
	<u>\$ 1,135,000</u>	<u>\$ 255,632</u>	<u>\$ 848,600</u>	<u>\$ 57,136</u>

	2015 Lease-purchase <u>loan</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 28,661	\$ 2,557
2019	29,489	1,729
2020	30,341	877
	<u>\$ 88,491</u>	<u>\$ 5,163</u>

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Business-type activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

	2012 Various Purpose Refunding Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest*
2018	\$ 116,400	\$ 11,724	\$ 74,955	\$ 6,421
2019	90,000	9,396	38,497	2,191
2020	96,000	7,596	-	-
2021	93,000	5,676	-	-
2022	90,000	3,816	-	-
2023	96,000	2,016	-	-
	<u>\$ 581,400</u>	<u>\$ 40,224</u>	<u>\$ 113,452</u>	<u>\$ 8,612</u>

*Includes \$2,522 of subsidy

NOTE 10 – Note Debt

The City’s short-term notes at year-end and a schedule of current year activity is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Industrial Park	\$ 105,286	\$ -	\$ (105,286)	\$ -
Total governmental activities notes	<u>\$ 105,286</u>	<u>\$ -</u>	<u>\$ (105,286)</u>	<u>\$ -</u>

The City issued a promissory note to partially fund the purchase of land for the development of an industrial park. The note has no stated maturity and principal is to be repaid directly to the former landowners from closing proceeds in the amount \$9,500 per acre as the City sells development sites to purchasers. Interest on the note is payable in quarterly installments. The underlying property and the full resources of the City’s revolving loan special revenue fund secure the note. During 2017, the promissory note was paid in full.

NOTE 11 – Capital Lease

In a prior year, the City entered into several capital leases. Governmental activities acquired two vehicles for the police department, a truck with a plow package and a backhoe. These assets were capitalized and reported as additions to capital assets in the amount of \$327,807 and are being depreciated over their estimated useful lives. Business-type activities acquired equipment in prior years valued at \$365,060 from capital lease financing. These capital assets are being depreciated over their estimated useful lives. The lease agreements qualify as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future lease payments as of the inception date.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at December 31, 2017:

<u>Year</u>	Lease Payments Governmental <u>Activities</u>
2018	\$ 65,843
2019	44,735
2020	44,735
2021	<u>44,735</u>
Total minimum lease payments	200,048
Less: amount representing interest	<u>(13,310)</u>
Present value of minimum lease payments	<u>\$ 186,738</u>

During 2017, the final payment of \$39,368, including \$542 in interest was made on the business-type activities capital lease.

NOTE 12 – Defined Benefit Pension Plan

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.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System

Plan Description – The City employees, other than full-time police and firefighters, participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the MD. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; the following disclosure focuses on the traditional plan.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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

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

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

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

	<u>State and Local</u>
2017 Statutory maximum contribution rates	
Employer	14.00%
Employee	10.00%
2017 Actual contribution rates	
Employer:	
Pension	13.00%
Post-employment health care benefits	<u>1.00%</u>
Total employer	<u>14.00%</u>
Employee	<u>10.00%</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$178,776 for 2017. Of this amount, \$22,593 is reported as an intergovernmental payable.

Ohio Police and Fire Pension Fund

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the 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 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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.

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

	<u>Police</u>	<u>Firefighters</u>
2017 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee:		
January 1, 2017 through December 31, 2017	12.25%	12.25%
2017 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:		
January 1, 2017 through December 31, 2017	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$354,214 for 2017. Of this amount \$43,874 is reported as an intergovernmental payable.

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, 2016, 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, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability - prior measurement date	0.011173%	0.088247%	
Proportion of the net pension liability - current measurement date	<u>0.011935%</u>	<u>0.085667%</u>	
Change in proportionate share	<u>0.000762%</u>	<u>-0.002580%</u>	
Proportionate share of the net pension liability	\$ 2,710,236	\$ 5,426,094	\$ 8,136,330
Pension expense	\$ 586,294	\$ 577,441	\$ 1,163,735

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 3,674	\$ 1,535	\$ 5,209
Changes of assumptions	429,877	-	429,877
Net difference between projected and actual earnings on pension plan investments	403,617	527,661	931,278
Changes in proportion and differences between City contributions and proportionate share of contributions	78,171	-	78,171
City contributions subsequent to the measurement date	<u>178,776</u>	<u>354,214</u>	<u>532,990</u>
Total deferred outflows of resources	<u>\$ 1,094,115</u>	<u>\$ 883,410</u>	<u>\$ 1,977,525</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 16,130	\$ 12,492	\$ 28,622
Changes in proportion and differences between City contributions and proportionate share of contributions	-	153,350	153,350
Total deferred inflows of resources	<u>\$ 16,130</u>	<u>\$ 165,842</u>	<u>\$ 181,972</u>

\$532,990 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Year ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2018	\$ 381,219	\$ 168,604	\$ 549,823
2019	383,686	168,602	552,288
2020	146,134	120,784	266,918
2021	(11,830)	(67,597)	(79,427)
2022	-	(24,787)	(24,787)
Thereafter	<u>-</u>	<u>(2,252)</u>	<u>(2,252)</u>
Total	<u>\$ 899,209</u>	<u>\$ 363,354</u>	<u>\$ 1,262,563</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.25 percent
Future salary increases, including inflation	3.25 percent to 10.75 percent
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	7.5 percent
Actuarial cost method	Individual entry age

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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

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

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Weighted average long-term expected real rate of return (arithmetic)</u>
Fixed income	23.00%	2.75%
Domestic equities	20.70%	6.34%
Real estate	10.00%	4.75%
Private equity	10.00%	8.97%
International equities	18.30%	7.95%
Other investments	<u>18.00%</u>	<u>4.92%</u>
Total	<u>100.00%</u>	<u>5.66%</u>

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 4,140,490	\$ 2,710,236	\$ 1,518,371

Actuarial Assumptions – OP&F

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

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

Valuation date	January 1, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 percent and 3.00 percent

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.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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, 2016 are summarized below:

Asset class	Target Allocation	Long-term expected real rate of return**
Cash and cash equivalents	0.00%	0.00%
Domestic equity	16.00%	5.21%
Non-US equity	16.00%	5.40%
Core fixed income *	20.00%	2.37%
Global inflation protected securities	20.00%	2.33%
High yield	15.00%	4.48%
Real estate	12.00%	5.65%
Private markets	8.00%	7.99%
Real Assets	5.00%	6.87%
Master limited partnerships	<u>8.00%</u>	7.36%
Total	<u>120.00%</u>	

* Levered 2x.

**numbers are net of expected inflation

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

	1% Decrease (7.25%)	Current discount rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 7,226,912	\$ 5,426,094	\$ 3,899,874

Changes Between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.0 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

NOTE 13 – Post Employment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to as OPEB (other postemployment benefits). The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) – a defined contribution plan; and the combined plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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 writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377 or by visiting the website at <https://www.opers.org/financial/reports.shtml#CAFR>.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

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 Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% 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 to the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2017, 2016, and 2015 were \$15,112, \$29,189 and \$27,096 respectively; 88.5% has been contributed for 2017 and 100% for 2016 and 2015. \$1,738 representing the unpaid contribution for fiscal year 2017 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

Ohio Police and Firemen's Disability and 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 postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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 administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to healthcare was 0.5% of covered payroll from January 1, 2017 through December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that 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 total contributions to OP&F for police and fire healthcare for the years ending December 31, 2017, 2016 and 2015 were \$8,405, \$7,835 and \$8,455 respectively, 87.6 percent has been contributed, for 2017 with the remainder being reported as a liability. \$1,059 representing the unpaid contribution for fiscal year 2017 is recorded as an intergovernmental payable.

NOTE 14 – Jointly Governed Organization

The Huron Area Joint Recreation District (the District) is a jointly governed organization between Huron Township, the Huron City School District, and the City of Huron providing parks and recreation services to members. The City appoints three members to the nine-member commission. Each entity's control is limited to its representation on the governing board. The District's continued existence is not dependent on the City's continued participation. The District is not accumulating significant financial resources or experiencing fiscal stress that would cause additional financial benefit or burden on the City. Financial information on the District can be obtained from the City of Huron, 417 Main Street, Huron, Ohio, 44839.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 15 – Risk Management

The City of Huron is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2017, the City contracted with several companies for various types of insurance as follows:

Workers' compensation coverage is provided by the State. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The City is self-insured for dental and prescription benefits. As of the beginning of 2016 the City is no longer self-insured for medical benefits. The dental and prescription program is administered by Business Administrators and Consultants, which provides claims review and processing services. Because the City is self-insured for its dental and prescription programs, it has a potential liability for incurred but not yet reported claims (IBNR). IBNR claims are claims for insured events that have occurred but were not reported to the third party administrator as of December 31, 2017. These claims include known loss events that are expected to be represented as claims, unknown loss events that are expected to become claims, and expected future developments on claims already reported. The City accounts for claims activity in the internal service fund.

Year	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2016	\$ 161,655	\$ 311,625	\$ (463,574)	\$ 9,706
2017	9,706	117,076	(118,098)	8,684

The City belongs to the Public Entities Pool of Ohio (PEP), a risk sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. The pool engages York Insurance Service Group, Inc. (York) to serve as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. The City pays an annual premium to PEP for this coverage. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

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

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

There were no settled claims from these risks that have exceeded commercial insurance coverage for the past three years and there has been no significant reduction in coverages from last year.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Assets	\$ 44,452,326	\$ 42,182,281
Liabilities	<u>(13,004,011)</u>	<u>(13,396,700)</u>
Net Position	<u>\$ 31,448,315</u>	<u>\$ 28,785,581</u>

At December 31, 2017 and 2016, respectively, liabilities noted above include approximately \$11.8 million and \$12 million of estimated incurred claims payable. The assets and net position above also include approximately \$11.2 million and \$11.5 million of unpaid claims to be billed to approximately 527 member governments in the future, as of December 31, 2017 and 2016, respectively.

These amounts will be included in future contributions from members when the related claims are due for payments. As of December 31, 2017, the City’s share of these unpaid claims collectible in future years is approximately \$31,807.

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

	Contributions <u>to PEP</u>
2016	\$ 48,942
2017	50,487

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

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 16 – Interfund Transactions

Interfund transfers for the year ended December 31, 2017 consisted of the following:

Transfers from general fund to:	
Fire levy fund	\$ 200,000
Capital improvement fund	440,000
Nonmajor governmental funds	<u>946,212</u>
	<u>1,586,212</u>
Transfers from fire levy fund to:	
General fund	20,000
Nonmajor governmental funds	<u>22,500</u>
	<u>42,500</u>
Transfers from nonmajor governmental funds to:	
General fund	43,750
Other nonmajor governmental funds	<u>39,736</u>
	<u>83,486</u>
	<u>\$ 1,712,198</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The above mentioned transfers from/to were used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. More specifically, transfers were made to account for pension contributions, severance payments and debt payments.

NOTE 17 – Related Party Transactions

The City Mayor's family is an owner of a title company that processed title settlement for the purchase of land and provided surveyor services for the City. The City paid \$865 for surveyor services and \$70,763 for the purchase of land during 2017.

A City Councilman's brother provides automotive services to the City and was paid \$56 in 2017.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 18 – Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City has established a Community Reinvestment Area (CRA). The City of Huron authorizes incentives through passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvements 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 amount of the abatement is deducted from the recipient's property tax bill. The establishment of the CRA gave the City the ability to maintain and expand businesses 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. The City of Huron also contracts with the Huron City School District (the School District) for payments in lieu of taxes when required by section 5709.82 of the Ohio Revised Code.

During 2017, the City abated property taxes totaling \$492,006 within the Community Reinvestment Area while providing \$131,787 in direct payments to the Huron City School District. The City's property taxes were reduced by \$21,414 during 2017 for these abatements.

Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Huron and Huron City School District in line with section 5709.82 of the Ohio Revised Code, created various Community Reinvestment Area Compensation agreements. These agreements stating various reimbursement percentages (50 percent and 25 percent), require the businesses receiving tax abatements to make an annual payment of the required percentage of any abatement benefit received for the prior year. These payments are due to the School District commencing on April 15 of the first year following the year in which the first abatement is received.

The City of Huron also has a Community Reinvestment Area Compensation Agreement with a local business receiving abated taxes. Under this agreement the business is to make annual payments equal for 5 percent of any abatement received for the prior year dedicated to the City's fire and EMS operations. During the year the City received \$3,770 for this agreement.

Required Supplementary Information

City of Huron, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Last Four Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ohio Public Employees Retirement System - Traditional Plan				
City's proportion of the net pension liability	0.011935%	0.011173%	0.010859%	0.010859%
City's proportionate share of the net pension liability	\$ 2,710,236	\$ 1,935,304	\$ 1,309,717	\$ 1,280,135
City's covered employee payroll	\$ 1,284,317	\$ 1,192,242	\$ 1,372,800	\$ 1,369,577
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	211.03%	162.32%	95.40%	93.47%
Plan fiduciary net position as a percentage of total pension liability	77.25%	81.08%	86.45%	86.36%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ohio Police and Fire Pension Fund				
City's proportion of the net pension liability	0.085667%	0.088247%	0.089316%	0.089316%
City's proportionate share of the net pension liability	\$ 5,426,094	\$ 5,677,011	\$ 4,626,946	\$ 4,349,974
City's covered employee payroll	\$ 1,549,266	\$ 1,797,526	\$ 1,852,083	\$ 1,882,857
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	350.24%	315.82%	249.82%	231.03%
Plan fiduciary net position as a percentage of total pension liability	68.36%	66.77%	71.71%	73.00% (2)

(1) Information prior to 2014 is not available and the amounts presented are as of the City's measurement date which is the prior fiscal year end.

(2) Restated during 2015.

City of Huron, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Public Employees Retirement System - Traditional Plan					
Contractually required contribution	\$ 178,776	\$ 154,118	\$ 143,069	\$ 164,736	\$ 178,045
Contributions in relation to contractually required contribution	<u>(178,776)</u>	<u>(154,118)</u>	<u>(143,069)</u>	<u>(164,736)</u>	<u>(178,045)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 1,375,200	\$ 1,284,317	\$ 1,192,242	\$ 1,372,800	\$ 1,369,577
Contributions as a percentage of covered employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Police and Fire Pension Fund					
Contractually required contribution	\$ 354,214	\$ 329,219	\$ 361,123	\$ 377,084	\$ 321,592
Contributions in relation to contractually required contribution	<u>(354,214)</u>	<u>(329,219)</u>	<u>(361,123)</u>	<u>(377,084)</u>	<u>(321,592)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 1,666,889	\$ 1,549,266	\$ 1,797,526	\$ 1,852,083	\$ 1,882,857
Contributions as a percentage of covered employee payroll	21.25%	21.25%	20.09%	20.36%	17.08%

(1) Information prior to 2013 is not available.

City of Huron, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2017

Ohio Public Employees Retirement System - Traditional Plan

Changes in benefit terms: There were no changes in benefit terms from the amounts reported.

Changes in assumptions: There was a change in methods and assumptions used in the calculation of actuarial determined contributions for 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

Ohio Police and Fire Pension Fund

Changes in benefit terms: There were no changes in benefit terms from the amounts reported.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions. See the notes to the basic financials for the methods and assumptions in this calculation.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City of Huron
Erie County
417 Main Street
Huron, Ohio 44839

To the Members of the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron, Erie County, Ohio (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in the report that we reported to the City's management in a separate letter dated July 26, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
July 26, 2018



Dave Yost • Auditor of State

CITY OF HURON

ERIE 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
SEPTEMBER 27, 2018