



Dave Yost • Auditor of State

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**DECEMBER 31, 2016
TABLE OF CONTENTS**

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual General Fund.....	22
Fire Department Special Levy Fund.....	23
EMS Special Levy Fund	24
Statement of Fund Net Position	
Enterprise Funds	25
Statement of Revenues, Expenses and Changes in Fund Net Position Enterprise Funds	26
Statement of Cash Flows	
Enterprise Funds	27
Statement of Fiduciary Assets and Liabilities – Agency Funds	29
Notes to the Basic Financial Statements	30

CITY OF MUNROE FALLS
SUMMIT COUNTY

DECEMBER 31, 2016
TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability (Ohio Public Employees Retirement System).....	63
Schedule of the City's Proportionate Share of the Net Pension Liability (Ohio Police and Fire Pension Fund).....	64
Schedule of the City's Contributions (Ohio Public Employees Retirement System).....	65
Schedule of the City's Contributions (Ohio Police and Fire Pension Fund).....	66
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	69
Schedule of Findings.....	71
Summary Schedule of Prior Audit Findings	73



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Fire Department Special Levy Fund, and EMS Special 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 this presentation to include *management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

December 27, 2017

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

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

Financial Highlights

Key financial highlights for 2016 are:

- In total, net position decreased \$733,271. Net position of governmental activities decreased \$783,445, which represents a 9.23 percent decrease from 2015. Net position of business-type activity increased \$50,174, or 1.08 percent from 2015.
- Program specific revenues in the form of charges for services and operating assessments and operating grants and contributions accounted for \$1,512,599, or 45.63 percent of total revenues of \$3,315,096. General revenues accounted for \$1,802,497 in revenue, or 54.37 percent of all revenues.
- The City had \$3,170,410 in expenses related to governmental activities; only \$749,785 of these expenses were offset by program specific charges for services and operating assessments and operating grants and contributions.
- During 2016, the general fund had \$1,596,829 in revenues and \$1,819,672 in expenditures, realizing a decrease in fund balance of \$222,843, which was less than the decrease in 2015 due to an increase in income tax and a decrease in general government expenditures.
- Total long-term liabilities increased \$467,348 during 2016 mainly due to the net pension liability. The net pension liability increase represents the City's proportionate share of the Ohio Public Employees Retirement System (OPERS) traditional plan's and Ohio Police and Fire Pension Fund (OPF) unfunded benefits. Changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

Using This Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Munroe Falls as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of the net position. 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 non-major funds presented in total in one column.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Reporting the City of Munroe Falls as a Whole

Statement of Net Position and Statement of Activities

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 asks the question, "How did the City do financially during 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in that net position. The changes in net position are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. 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 the City's capital assets will also need to be evaluated.

The *Statement of Net Position* and the *Statement of Activities* are divided into the following categories:

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position
- Program Revenue and Expenses
- General Revenues
- Net Position Beginning of Year and End of Year

Reporting the City of Munroe Falls' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 11. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services and facilities provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Munroe Falls, the major funds are the general, roads and bridges, fire department special levy, EMS special levy and water funds.

Governmental Funds

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

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Proprietary Funds

The City's only proprietary fund (the water fund) is an enterprise fund which uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are agency funds.

The City as a Whole

The *Statement of Net Position* looks at the City as a whole. Table 1 provides a summary of the City's net position for 2016 compared to 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	\$3,943,816	\$4,232,924	\$2,502,949	\$2,479,655	\$6,446,765	\$6,712,579
Capital Assets, Net	6,195,900	6,494,987	3,746,514	3,885,349	9,942,414	10,380,336
<i>Total Assets</i>	<u>10,139,716</u>	<u>10,727,911</u>	<u>6,249,463</u>	<u>6,365,004</u>	<u>16,389,179</u>	<u>17,092,915</u>
Deferred Outflows of Resources						
Pension	697,512	257,246	132,363	12,942	829,875	270,188
Liabilities						
Current and Other Liabilities	53,500	133,195	27,388	44,948	80,888	178,143
Long-Term Liabilities:						
Due Within One Year	97,008	113,246	186,131	178,627	283,139	291,873
Due in More than One Year:						
Net Pension Liability	2,191,586	1,625,983	213,329	69,882	2,404,915	1,695,865
Other Amounts	251,980	302,370	1,265,077	1,447,655	1,517,057	1,750,025
<i>Total Liabilities</i>	<u>2,594,074</u>	<u>2,174,794</u>	<u>1,691,925</u>	<u>1,741,112</u>	<u>4,285,999</u>	<u>3,915,906</u>
Deferred Inflows of Resources						
Property Taxes	499,501	315,395	0	0	499,501	315,395
Pension	43,179	11,049	4,121	1,228	47,300	12,277
<i>Total Deferred Inflows of Resources</i>	<u>542,680</u>	<u>326,444</u>	<u>4,121</u>	<u>1,228</u>	<u>546,801</u>	<u>327,672</u>
Net Position						
Net Investment in Capital Assets	5,945,559	6,157,119	2,346,887	2,284,304	8,292,446	8,441,423
Restricted for:						
Capital Projects	30,647	527,798	31,544	8,753	62,191	536,551
Debt Service	349	0	0	0	349	0
Street Maintenance and Repair	334,308	191,124	0	0	334,308	191,124
Fire Department	498,858	484,574	0	0	498,858	484,574
EMS	416,780	439,740	0	0	416,780	439,740
Other Purposes	76,271	163,961	0	0	76,271	163,961
Unrestricted	397,702	519,603	2,307,349	2,342,549	2,705,051	2,862,152
<i>Total Net Position</i>	<u>\$7,700,474</u>	<u>\$8,483,919</u>	<u>\$4,685,780</u>	<u>\$4,635,606</u>	<u>\$12,386,254</u>	<u>\$13,119,525</u>

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

GASB 68 requires the net pension liability to equal the City's proportionate share of each plan's collective:

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

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

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

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

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

By comparing assets, deferred outflows, liabilities and deferred inflows of resources, one can see the overall position of the City has declined as evidenced by the decrease in net position. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

The decrease in net position was mainly due to a decrease in capital assets and an increase in the net pension liability. The net pension liability increase represents the City's proportionate share of the OPERS traditional plan's and OPF unfunded benefits. Changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the years 2016 and 2015.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for Services and						
Operating Assessments	\$357,209	\$395,717	\$762,814	\$785,806	\$1,120,023	\$1,181,523
Operating Grants and Contributions	392,576	285,596	0	0	392,576	285,596
Capital Grants and Contributions	0	1,672	0	11,475	0	13,147
Total Program Revenues	749,785	682,985	762,814	797,281	1,512,599	1,480,266
General Revenues:						
Property Taxes	277,400	269,540	0	0	277,400	269,540
Income Tax	1,249,205	1,201,708	0	0	1,249,205	1,201,708
Grants and Entitlements not						
Restricted to Specific Programs	144,509	198,752	0	0	144,509	198,752
Unrestricted Contributions	5,528	3,894	0	0	5,528	3,894
Interest	59,628	60,465	0	0	59,628	60,465
Other	66,227	95,465	0	9,959	66,227	105,424
Total General Revenues	1,802,497	1,829,824	0	9,959	1,802,497	1,839,783
Total Revenues	\$2,552,282	\$2,512,809	\$762,814	\$807,240	\$3,315,096	\$3,320,049

(continued)

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Table 2
Changes in Net Position (continued)

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
<i>Program Expenses:</i>						
General Government	\$682,261	\$834,431	\$0	\$0	\$682,261	\$834,431
Security of Persons and Property	1,874,261	1,538,036	0	0	1,874,261	1,538,036
Transportation	454,165	331,883	0	0	454,165	331,883
Public Health and Welfare	19,570	39,519	0	0	19,570	39,519
Leisure Time Activities	131,322	76,658	0	0	131,322	76,658
Interest and Fiscal Charges	8,831	9,745	0	0	8,831	9,745
Water Operations	0	0	877,957	658,034	877,957	658,034
<i>Total Program Expenses</i>	<u>3,170,410</u>	<u>2,830,272</u>	<u>877,957</u>	<u>658,034</u>	<u>4,048,367</u>	<u>3,488,306</u>
Excess of Revenues Over (Under) Expenses	(618,128)	(317,463)	(115,143)	149,206	(733,271)	(168,257)
Transfers	<u>(165,317)</u>	<u>111</u>	<u>165,317</u>	<u>(111)</u>	<u>0</u>	<u>0</u>
Change in Net Position	(783,445)	(317,352)	50,174	149,095	(733,271)	(168,257)
Net Position Beginning of Year	<u>8,483,919</u>	<u>8,801,271</u>	<u>4,635,606</u>	<u>4,486,511</u>	<u>13,119,525</u>	<u>13,287,782</u>
Net Position End of Year	<u>\$7,700,474</u>	<u>\$8,483,919</u>	<u>\$4,685,780</u>	<u>\$4,635,606</u>	<u>\$12,386,254</u>	<u>\$13,119,525</u>

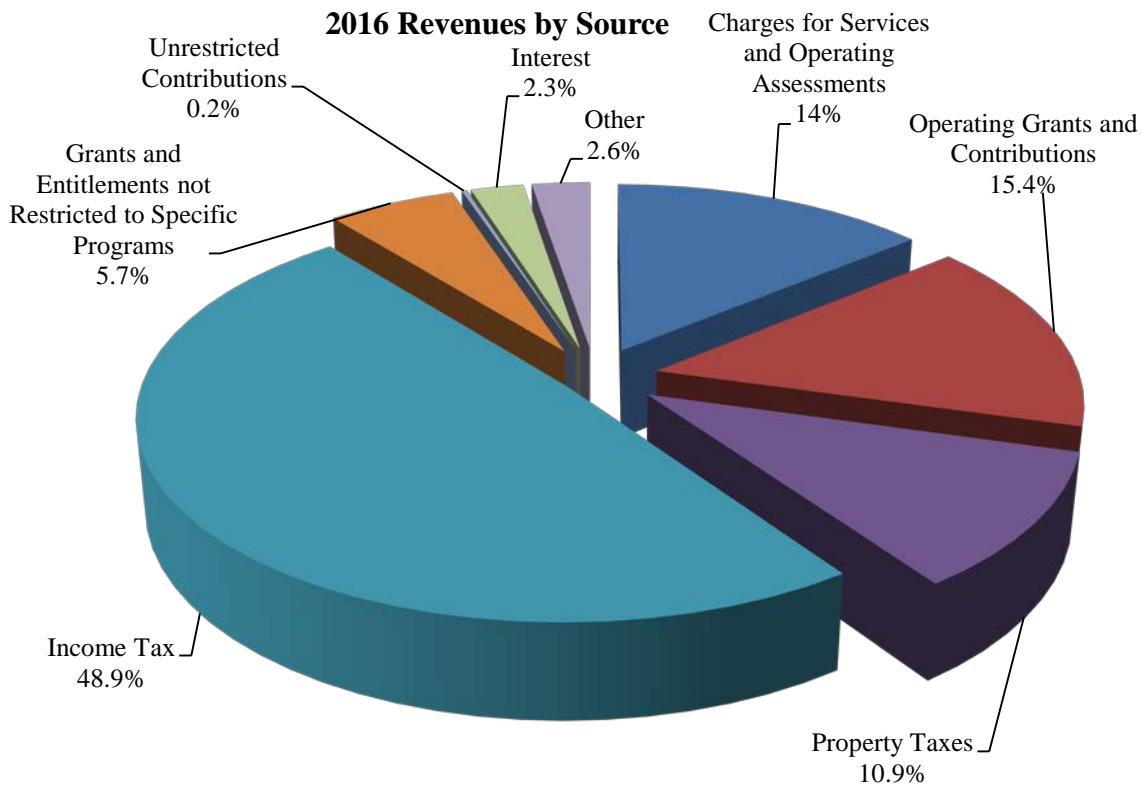
Governmental Activities

Several revenue sources fund the City's governmental activities with City income tax being the largest. An income tax of 2 percent is levied on substantially all income earned within the City. In addition, income of residents earned outside of the City is subject to income tax; however, credit is allowed for income taxes paid to other municipalities or a Joint Economic Development District, created pursuant to Ohio Revised Code 715.70, up to 100 percent of the City's current tax rate. Income tax revenue was consistent with 2015.

General revenues from property taxes and local government funds are also significant revenue generators. Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer at 35 percent of the appraised market value. All property is required to be revalued every six years with triennial updates. Property tax revenues increased by \$7,860 due to slightly higher delinquent collections in 2016. There was approval of an operating levy for the purpose of general construction, reconstruction, resurfacing, and repair of streets, roads and bridges.

Capital grants and contributions decreased from the prior year due to a decrease in contributions and donations. Operating grants and contributions increased from the prior year due to increases in gas taxes and motor vehicle license taxes. Charges for services decreased from the prior year due to a decrease in fines, licenses and permits. Investment income for 2016 was just slightly under the 2015 amount. Grants and entitlements not restricted to specific programs were lower than the prior year due to one-time grants being received in 2015.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

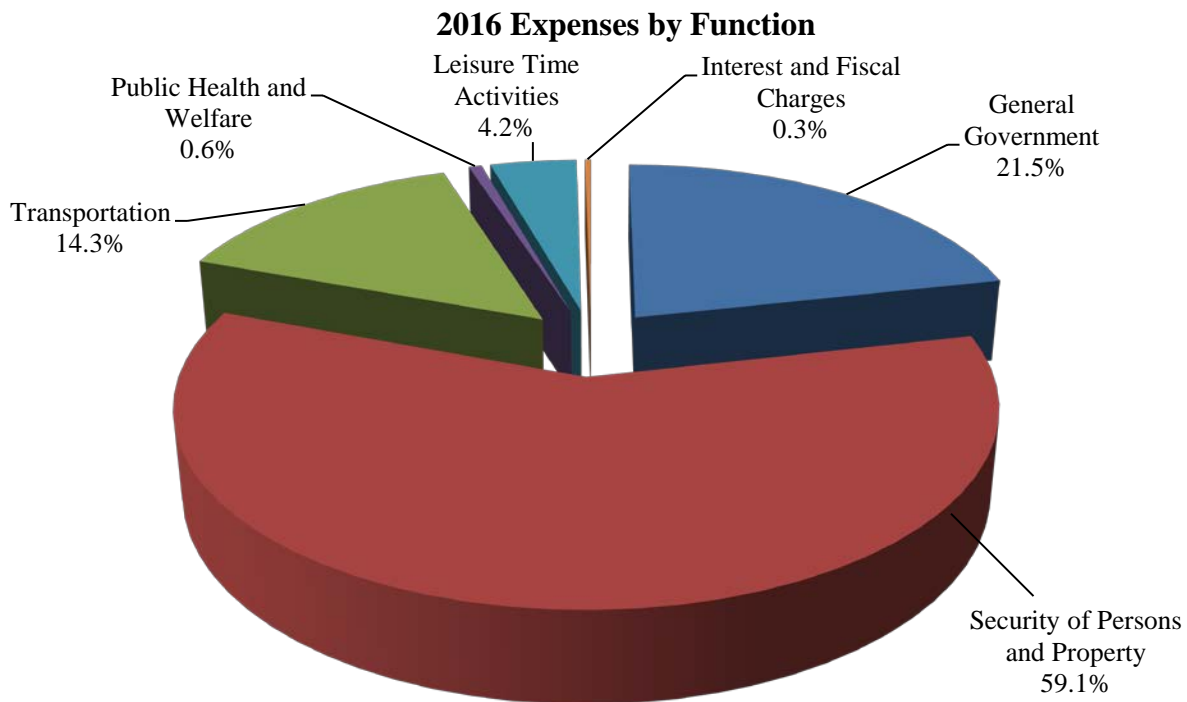


General government expenses include such services as planning, zoning, administration, finance, legal, legislature, and engineering. These expenses were lower than the prior year due to more conservative general government spending and less public health contractual services than the prior year.

The police department continues to operate very efficiently utilizing full and part time personnel. The police department is funded primarily from revenues generated through the general fund. The fire department is primarily a volunteer force and works from two fire stations. Operations are funded primarily through fire and EMS special levies and rescue billing collections. For 2016, security of persons and property spending was carefully monitored, but was higher than the prior year mostly due to increased salaries.

Transportation costs include street lighting, snow and ice removal and the costs of maintaining the City streets. These costs were also higher than 2015 due to higher personal services expense.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited



The City's Funds

The City of Munroe Falls uses fund accounting as mandated by governmental legal requirements. The intent of accounting and reporting using this method is to demonstrate compliance with these finance related requirements.

Governmental Funds

Information about the City's governmental funds begins on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,524,048 and expenditures of \$2,781,271. The most significant fund is the general fund with a year-end balance of \$1,506,832, which included an unassigned fund balance of \$989,415, compared to annual expenditures of \$1,819,672. The City focuses on its governmental funds to provide a financial picture of activities as they provide information on how the City did over a period of one year as well as where the City's funds stood at December 31, 2016. The information provided is useful to determine the City's available balances. At December 31, 2016, the City's combined ending governmental cash and cash equivalents balance was \$2,583,376. Along those same lines, the City's 2016 ending combined governmental fund balance is \$3,043,010.

The roads and bridges special revenue fund had no operating activity in 2016, but is estimated to receive property taxes in the amount of \$206,477 meant for 2017 operations.

The fire department special levy and EMS special levy special revenue funds had revenues of \$160,301 and \$305,272, respectively. The fire department special levy fund had a slight increase of fund balance and the EMS special levy special revenue fund had a decrease of fund balance, ending the year with fund balances of \$470,826 and \$410,244, respectively.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Business-Type Fund

As mentioned earlier, the City's lone business-type activity is the water fund. Net position of the water fund increased in 2016 by \$50,174. This was due to expenses decreasing from the prior year.

The City continues the process of identifying the long-term maintenance and replacement needs of its water line infrastructure and other capital assets requirements. A water model study was completed in 2004, which identified all waterline capacities throughout the entire City. This has enabled the Service Department to better estimate replacement and repair costs.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. At the direction of Council, all capital projects and requests for capital purchases must be reviewed and approved individually by Council. Recommendations and requests for budget changes are referred to the Finance Committee of City Council for review, after which they are sent to the formal Council meeting for ordinance enactment on the change. The City's legal level of control has been established by Council at the personal services and other object level within each fund and department.

The most significant budgeted fund is the general fund. The general fund supports many major activities such as the police, building and planning departments as well as the legislative and most executive activities. Some major capital projects are funded with general fund dollars. By legislation, these funds are transferred from the general fund to capital projects funds where the revenue and expenditures for the capital improvement are tracked and monitored. For the general fund, the original and final budgeted revenues were \$1,892,094. Actual revenues of \$1,556,531 were lower than final budgeted revenues mainly due to lower than anticipated fines, licenses and permits and income taxes. The City continued to maintain a respectable level of liquidity in the general fund by reducing final expenditures and thus maintaining unrestricted cash at year end. The variance from final budget to actual expenditures in general government was due to a concerted effort by the City to reduce expenditures.

Capital Assets and Debt Administration

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Land	\$1,608,396	\$1,608,396	\$31,689	\$31,689	\$1,640,085	\$1,640,085
Construction in Progress	0	0	580,956	537,402	580,956	537,402
Land Improvements	163,951	179,692	0	0	163,951	179,692
Buildings and Improvements	2,230,065	2,316,896	508,795	527,659	2,738,860	2,844,555
Equipment	877,499	1,017,132	341,719	423,802	1,219,218	1,440,934
Infrastructure	1,315,989	1,372,871	2,283,355	2,364,797	3,599,344	3,737,668
Totals	\$6,195,900	\$6,494,987	\$3,746,514	\$3,885,349	\$9,942,414	\$10,380,336

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The governmental and business-type capital assets for the City of Munroe Falls as of December 31, 2016, were \$6,195,900 and \$3,746,514, respectively. Both decreased from the prior year due to depreciation and deductions outpacing additions. Governmental additions were made to land improvements and equipment, which is also where deductions occurred. Business-type additions were made to construction in progress and infrastructure, but were outpaced by deductions to equipment. For additional information see Note 8 to the basic financial statements.

Debt Administration

On December 31, 2016, the City of Munroe Falls had \$1,699,506 in outstanding debt from general obligation bonds and capital leases. This represents obligations backed by the full faith and credit of the City. Table 4 summarizes bonds and leases outstanding as of December 31, 2016.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
2011 Capital Asset Acquisition Bonds	\$50,000	\$75,000	\$320,000	\$345,000	\$370,000	\$420,000
Premium on Bonds	3,008	4,510	14,986	16,484	17,994	20,994
Capital Leases	200,341	262,868	1,111,171	1,264,798	1,311,512	1,527,666
Totals	\$253,349	\$342,378	\$1,446,157	\$1,626,282	\$1,699,506	\$1,968,660

The capital asset acquisition bonds were for road and waterline improvements and capital asset purchases. These bonds are paid from municipal income tax revenue, generally transferred to the capital improvement fund, and charges for services in the EMS fund and the water fund. For additional information see Note 12 to the basic financial statements.

The capital leases were for a fire truck, dump truck, excavator, leaf vacuum, water meters and meter readers, snow plows, salt spreaders, EMS cots, and waterlines. For additional information, see Note 7 to the basic financial statements.

Current Financial Related Activities

With rising costs and continued cuts in State and local revenue, the City's financial stability has continued to decline. The City's only property tax levies currently in effect partially support EMS and fire services and the City relies heavily on municipal income tax revenue to support police, parks, and other general services. One of three proposed funding issues was passed by City residents in November. Revenues generated from the passage of this capital improvement levy will help defray the costs of road maintenance, repairs and resurfacing projects.

The City's water utility program has almost completed the installation of the automated meter reading system. The City continues its long-range planning for the water utility infrastructure needs and has contracted with an engineering firm to evaluate the infrastructure needs of the City and prioritize the projects and rank city streets based on condition.

The City's administration is very committed to efficiency in operations and maintaining costs while providing residents with a multitude of services. In addition, the City will continue its transparency in reporting the financial position of the City.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions regarding this report or financial information, please contact: Karen Reynolds, CGFM, Finance Director, 43 Munroe Falls Avenue, Munroe Falls, OH 44262, or email admin@munroefalls.com.

Basic Financial Statements

City of Munroe Falls, Ohio

Statement of Net Position

December 31, 2016

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,517,441	\$2,066,250	\$4,583,691
Cash and Cash Equivalents With Fiscal Agents	65,935	0	65,935
Materials and Supplies Inventory	69,803	874	70,677
Accrued Interest Receivable	11,824	0	11,824
Accounts Receivable	93,721	157,979	251,700
Special Assessments Receivable	20,974	0	20,974
Intergovernmental Receivable	263,664	0	263,664
Prepaid Items	14,364	5,835	20,199
Inventory Held for Resale	0	272,011	272,011
Income Taxes Receivable	368,037	0	368,037
Property Taxes Receivable	518,053	0	518,053
Nondepreciable Capital Assets	1,608,396	612,645	2,221,041
Depreciable Capital Assets, Net	4,587,504	3,133,869	7,721,373
<i>Total Assets</i>	<u>10,139,716</u>	<u>6,249,463</u>	<u>16,389,179</u>
Deferred Outflows of Resources			
Deferred Outflows - Pension	697,512	132,363	829,875
Liabilities			
Accounts Payable	9,765	13,635	23,400
Contracts Payable	3,748	86	3,834
Accrued Wages	15,219	1,860	17,079
Intergovernmental Payable	23,992	2,398	26,390
Accrued Interest Payable	776	9,409	10,185
Long-Term Liabilities:			
Due Within One Year	97,008	186,131	283,139
Due In More Than One Year:			
Net Pension Liability (See Note 9)	2,191,586	213,329	2,404,915
Other Amounts Due in More Than One Year	251,980	1,265,077	1,517,057
<i>Total Liabilities</i>	<u>2,594,074</u>	<u>1,691,925</u>	<u>4,285,999</u>
Deferred Inflows of Resources			
Property Taxes	499,501	0	499,501
Deferred Inflows - Pension	43,179	4,121	47,300
<i>Total Deferred Inflows of Resources</i>	<u>542,680</u>	<u>4,121</u>	<u>546,801</u>
Net Position			
Net Investment in Capital Assets	5,945,559	2,346,887	8,292,446
Restricted for:			
Capital Projects	30,647	31,544	62,191
Debt Service	349	0	349
Street Maintenance and Repair	334,308	0	334,308
Fire Department	498,858	0	498,858
EMS	416,780	0	416,780
Other Purposes	76,271	0	76,271
Unrestricted	397,702	2,307,349	2,705,051
<i>Total Net Position</i>	<u>\$7,700,474</u>	<u>\$4,685,780</u>	<u>\$12,386,254</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Activities
For the Year Ended December 31, 2016

	Program Revenues		
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions
Governmental Activities:			
General Government	\$682,261	\$88,956	\$864
Security of Persons and Property	1,874,261	249,619	94,268
Transportation	454,165	7,145	297,444
Public Health and Welfare	19,570	2,228	0
Leisure Time Activities	131,322	9,261	0
Interest and Fiscal Charges	8,831	0	0
<i>Total Governmental Activities</i>	3,170,410	357,209	392,576
Business-Type Activity:			
Water	877,957	762,814	0
<i>Total</i>	\$4,048,367	\$1,120,023	\$392,576

General Revenues

Property Taxes Levied for:

Fire Department

EMS

Income Tax Levied for:

General Purposes

Capital Outlay

Grants and Entitlements not Restricted to

Specific Programs

Unrestricted Contributions

Interest

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

*Net Position Beginning of Year -
Restated (See Note 3)*

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 Activity	Total
(\$592,441)	\$0	(\$592,441)
(1,530,374)	0	(1,530,374)
(149,576)	0	(149,576)
(17,342)	0	(17,342)
(122,061)	0	(122,061)
(8,831)	0	(8,831)
(2,420,625)	0	(2,420,625)
<u>0</u>	<u>(115,143)</u>	<u>(115,143)</u>
<u>(2,420,625)</u>	<u>(115,143)</u>	<u>(2,535,768)</u>
130,032	0	130,032
147,368	0	147,368
1,127,618	0	1,127,618
121,587	0	121,587
144,509	0	144,509
5,528	0	5,528
59,628	0	59,628
66,227	0	66,227
1,802,497	0	1,802,497
<u>(165,317)</u>	<u>165,317</u>	<u>0</u>
<u>1,637,180</u>	<u>165,317</u>	<u>1,802,497</u>
(783,445)	50,174	(733,271)
<u>8,483,919</u>	<u>4,635,606</u>	<u>13,119,525</u>
<u>\$7,700,474</u>	<u>\$4,685,780</u>	<u>\$12,386,254</u>

City of Munroe Falls, Ohio

Balance Sheet

Governmental Funds

December 31, 2016

	General	Roads and Bridges	Fire Department Special Levy	EMS Special Levy	Other Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,235,756	\$0	\$475,757	\$342,708	\$463,220
Cash and Cash Equivalents With Fiscal Agents	0	0	0	0	65,935
Materials and Supplies Inventory	31,170	0	0	0	38,633
Accrued Interest Receivable	11,824	0	0	0	0
Accounts Receivable	18,676	0	0	72,405	2,640
Special Assessments Receivable	0	0	0	0	20,974
Intergovernmental Receivable	78,995	7,422	23,069	26,145	128,033
Prepaid Items	11,581	0	68	766	1,949
Income Taxes Receivable	327,336	0	0	0	40,701
Property Taxes Receivable	0	206,477	146,051	165,525	0
<i>Total Assets</i>	<u>\$1,715,338</u>	<u>\$213,899</u>	<u>\$644,945</u>	<u>\$607,549</u>	<u>\$762,085</u>
Liabilities					
Accounts Payable	\$4,994	\$0	\$0	\$3,234	\$1,537
Contracts Payable	3,722	0	0	26	0
Accrued Wages	10,198	0	1,396	2,341	1,284
Intergovernmental Payable	18,328	0	3,603	34	2,027
<i>Total Liabilities</i>	<u>37,242</u>	<u>0</u>	<u>4,999</u>	<u>5,635</u>	<u>4,848</u>
Deferred Inflows of Resources					
Property Taxes	0	206,477	137,355	155,669	0
Unavailable Revenue	171,264	7,422	31,765	36,001	102,129
<i>Total Deferred Inflows of Resources</i>	<u>171,264</u>	<u>213,899</u>	<u>169,120</u>	<u>191,670</u>	<u>102,129</u>
Fund Balances					
Nonspendable	42,751	0	68	766	40,582
Restricted	0	0	470,758	409,478	334,011
Committed	69,985	0	0	0	280,515
Assigned	404,681	0	0	0	0
Unassigned	989,415	0	0	0	0
<i>Total Fund Balances</i>	<u>1,506,832</u>	<u>0</u>	<u>470,826</u>	<u>410,244</u>	<u>655,108</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$1,715,338</u>	<u>\$213,899</u>	<u>\$644,945</u>	<u>\$607,549</u>	<u>\$762,085</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2016*

	Total Governmental Fund Balances	\$3,043,010
Total Governmental Funds	<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,195,900
\$2,517,441		
65,935	Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
69,803	Delinquent Property Taxes	18,552
11,824	Income Taxes	130,416
93,721	Intergovernmental	199,613
20,974	Total	348,581
263,664		
14,364	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(776)
368,037		
518,053		
<u>\$3,943,816</u>	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
	General Obligation Bonds	(50,000)
\$9,765	Premium on Bonds	(3,008)
3,748	Capital Leases	(200,341)
15,219	Compensated Absences	(95,639)
23,992	Total	(348,988)
<u>52,724</u>	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 governmental funds:	
499,501	Deferred Outflows - Pension	697,512
348,581	Net Pension Liability	(2,191,586)
	Deferred Inflows - Pension	(43,179)
848,082	Total	(1,537,253)
	<i>Net Position of Governmental Activities</i>	<u>\$7,700,474</u>
84,167		
1,214,247		
350,500		
404,681		
989,415		
<u>3,043,010</u>		
<u>\$3,943,816</u>		

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Fire Department Special Levy	EMS Special Levy	Other Governmental Funds
Revenues				
Property Taxes	\$0	\$128,741	\$145,906	\$0
Income Taxes	1,131,570	0	0	148,996
Special Assessments	0	0	0	20,917
Intergovernmental	130,571	31,560	32,268	277,183
Interest	56,942	0	0	2,686
Fines, Licenses and Permits	205,991	0	0	3,203
Charges for Services	0	0	127,098	0
Contributions and Donations	5,528	0	0	8,661
Other	66,227	0	0	0
<i>Total Revenues</i>	<u>1,596,829</u>	<u>160,301</u>	<u>305,272</u>	<u>461,646</u>
Expenditures				
Current:				
General Government	609,078	2,012	2,280	22,088
Security of Persons and Property	1,047,125	152,581	304,892	4,620
Transportation	62,763	0	0	227,808
Public Health and Welfare	19,570	0	0	0
Leisure Time Activities	81,136	0	0	0
Capital Outlay	0	0	0	146,671
Debt Service:				
Principal Retirement	0	0	29,490	58,037
Interest and Fiscal Charges	0	0	3,808	7,312
<i>Total Expenditures</i>	<u>1,819,672</u>	<u>154,593</u>	<u>340,470</u>	<u>466,536</u>
<i>Excess of Revenues Under Expenditures</i>	(222,843)	5,708	(35,198)	(4,890)
Other Financing Uses				
Transfers Out	0	0	0	(165,317)
<i>Net Change in Fund Balances</i>	(222,843)	5,708	(35,198)	(170,207)
<i>Fund Balances Beginning of Year</i>	<u>1,729,675</u>	<u>465,118</u>	<u>445,442</u>	<u>825,315</u>
<i>Fund Balances End of Year</i>	<u>\$1,506,832</u>	<u>\$470,826</u>	<u>\$410,244</u>	<u>\$655,108</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016*

	Net Change in Fund Balances - Total Governmental Funds	(\$422,540)
Total Governmental Funds	Amounts reported for governmental activities in the statement of activities are different because:	
\$274,647	Governmental funds report capital outlays as expenditures.	
1,280,566	However, in the statement of activities, the cost of those	
20,917	assets is allocated over their estimated useful lives as	
471,582	depreciation expense. This is the amount by which	
59,628	capital outlay exceeded depreciation in the current period.	
209,194	Capital Asset Additions	87,088
127,098	Current Year Depreciation	(366,033)
14,189	Total	(278,945)
66,227		
2,524,048	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(20,142)
635,458	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
1,509,218	Delinquent Property Taxes	2,753
290,571	Income Taxes	(31,361)
19,570	Intergovernmental	56,842
81,136	Total	28,234
146,671		
87,527	Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	87,527
11,120		
2,781,271	In the statement of activities, interest is accrued on outstanding bonds, and bond premiums are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when due.	
(257,223)	Accrued Interest	787
(165,317)	Amortization of Bond Premium	1,502
(422,540)	Total	2,289
3,465,550	Some expenses, such as compensated absences, 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.	(22,401)
\$3,043,010		
	Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	164,171
	Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(321,638)
	<i>Change in Net Position of Governmental Activities</i>	(\$783,445)

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Income Taxes	\$1,253,682	\$1,253,682	\$1,068,397	(\$185,285)
Intergovernmental	186,519	186,519	169,312	(17,207)
Interest	57,322	57,322	40,600	(16,722)
Fines, Licenses and Permits	290,826	290,826	205,988	(84,838)
Contributions and Donations	7,805	7,805	5,528	(2,277)
Other	95,940	95,940	66,706	(29,234)
<i>Total Revenues</i>	<u>1,892,094</u>	<u>1,892,094</u>	<u>1,556,531</u>	<u>(335,563)</u>
Expenditures				
Current:				
General Government	786,723	789,204	658,679	130,525
Security of Persons and Property	1,128,667	1,121,157	1,095,958	25,199
Transportation	95,257	95,487	77,574	17,913
Public Health and Welfare	40,113	40,113	39,140	973
Leisure Time Activities	121,717	121,689	83,945	37,744
<i>Total Expenditures</i>	<u>2,172,477</u>	<u>2,167,650</u>	<u>1,955,296</u>	<u>212,354</u>
<i>Excess of Revenues Under Expenditures</i>	(280,383)	(275,556)	(398,765)	(123,209)
Other Financing Uses				
Transfers Out	(128,388)	(153,388)	0	153,388
<i>Net Change in Fund Balance</i>	(408,771)	(428,944)	(398,765)	30,179
<i>Fund Balance Beginning of Year</i>	1,418,950	1,418,950	1,418,950	0
Prior Year Encumbrances Appropriated	69,642	69,642	69,642	0
<i>Fund Balance End of Year</i>	<u>\$1,079,821</u>	<u>\$1,059,648</u>	<u>\$1,089,827</u>	<u>\$30,179</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Department Special Levy Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$160,296	\$160,296	\$128,741	(\$31,555)
Intergovernmental	5,397	5,397	31,560	26,163
<i>Total Revenues</i>	<u>165,693</u>	<u>165,693</u>	<u>160,301</u>	<u>(5,392)</u>
Expenditures				
Current:				
General Government	2,500	2,500	2,012	488
Security of Persons and Property	156,702	156,702	155,516	1,186
<i>Total Expenditures</i>	<u>159,202</u>	<u>159,202</u>	<u>157,528</u>	<u>1,674</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	6,491	6,491	2,773	(3,718)
Other Financing Uses				
Transfers Out	(1,026)	(1,026)	0	1,026
<i>Net Change in Fund Balance</i>	5,465	5,465	2,773	(2,692)
<i>Fund Balance Beginning of Year</i>	470,475	470,475	470,475	0
Prior Year Encumbrances Appropriated	2,509	2,509	2,509	0
<i>Fund Balance End of Year</i>	<u>\$478,449</u>	<u>\$478,449</u>	<u>\$475,757</u>	<u>(\$2,692)</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
EMS Special Levy Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$157,168	\$157,168	\$145,906	(\$11,262)
Intergovernmental	24,502	24,502	35,768	11,266
Charges for Services	159,008	159,008	133,267	(25,741)
Other	0	0	3,080	3,080
<i>Total Revenues</i>	<u>340,678</u>	<u>340,678</u>	<u>318,021</u>	<u>(22,657)</u>
Expenditures				
Current:				
General Government	3,187	3,187	2,280	907
Security of Persons and Property	388,046	358,093	332,134	25,959
Debt Service:				
Principal Retirement	29,490	29,490	29,490	0
Interest and Fiscal Charges	3,808	3,808	3,808	0
<i>Total Expenditures</i>	<u>424,531</u>	<u>394,578</u>	<u>367,712</u>	<u>26,866</u>
<i>Excess of Revenues Under Expenditures</i>	(83,853)	(53,900)	(49,691)	4,209
Other Financing Uses				
Transfers Out	(1,026)	(1,026)	0	1,026
<i>Net Change in Fund Balance</i>	(84,879)	(54,926)	(49,691)	5,235
<i>Fund Balance Beginning of Year</i>	323,503	323,503	323,503	0
Prior Year Encumbrances Appropriated	56,240	56,240	56,240	0
<i>Fund Balance End of Year</i>	<u>\$294,864</u>	<u>\$324,817</u>	<u>\$330,052</u>	<u>\$5,235</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2016

	Water
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$2,066,250
Materials and Supplies Inventory	874
Accounts Receivable	157,979
Prepaid Items	5,835
Inventory Held for Resale	272,011
<i>Total Current Assets</i>	2,502,949
<i>Non-Current Assets:</i>	
Nondepreciable Capital Assets	612,645
Depreciable Capital Assets, Net	3,133,869
<i>Total Non-Current Assets</i>	3,746,514
<i>Total Assets</i>	6,249,463
Deferred Outflows of Resources	
Deferred Outflows - Pension	132,363
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	13,635
Contracts Payable	86
Accrued Wages	1,860
Intergovernmental Payable	2,398
Accrued Interest Payable	9,409
Compensated Absences Payable	3,059
General Obligation Bonds Payable	25,000
Capital Leases Payable	158,072
<i>Total Current Liabilities</i>	213,519
<i>Long-Term Liabilities (net of current portion):</i>	
Compensated Absences Payable	1,992
General Obligation Bonds Payable	309,986
Capital Leases Payable	953,099
Net Pension Liability	213,329
<i>Total Long-Term Liabilities</i>	1,478,406
<i>Total Liabilities</i>	1,691,925
Deferred Inflows of Resources	
Deferred Inflows - Pension	4,121
Net Position	
Net Investment in Capital Assets	2,346,887
Restricted for:	
Capital Projects	31,544
Unrestricted	2,307,349
<i>Total Net Position</i>	\$4,685,780

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2016*

	Water
Operating Revenues	
Charges for Services	\$762,814
Operating Expenses	
Personal Services	278,416
Contractual Services	326,391
Materials and Supplies	26,530
Depreciation	188,821
<i>Total Operating Expenses</i>	820,158
<i>Operating Loss</i>	(57,344)
Non-Operating Expenses	
Interest and Fiscal Charges	(57,420)
Loss on Disposal of Capital Assets	(379)
<i>Total Non-Operating Expenses</i>	(57,799)
<i>Loss before Transfers</i>	(115,143)
Transfers In	165,317
<i>Change in Net Position</i>	50,174
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	4,635,606
<i>Net Position End of Year</i>	\$4,685,780

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2016

	Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$776,029
Cash Payments to Employees for Services	(253,972)
Cash Payments for Goods and Services	(342,019)
<i>Net Cash Provided by Operating Activities</i>	180,038
Cash Flows from Noncapital Financing Activities	
Transfers In	165,317
Cash Flows from Capital and Related Financing Activities	
Capital Grants Received	4,146
Payments for Capital Acquisitions	(73,285)
Principal Paid on General Obligation Bonds	(25,000)
Principal Paid on Capital Leases	(153,627)
Interest Paid on General Obligation Bonds	(14,650)
Interest Paid on Capital Leases	(40,611)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(303,027)
<i>Net Increase in Cash and Cash Equivalents</i>	42,328
<i>Cash and Cash Equivalents Beginning of Year</i>	2,023,922
<i>Cash and Cash Equivalents End of Year</i>	\$2,066,250
	(continued)

City of Munroe Falls, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2016

	Water
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$57,344)
Adjustments:	
Depreciation	188,821
Decrease in Assets:	
Accounts Receivable	13,215
Prepaid Items	1,577
Inventory Held for Resale	96
Decrease in Deferred Outflows - Pension	31,574
Increase (Decrease) in Liabilities:	
Accounts Payable	9,207
Contracts Payable	86
Accrued Wages	(7,027)
Compensated Absences Payable	5,051
Intergovernmental Payable	(563)
Net Pension Liability	(2,197)
Decrease in Deferred Inflows - Pension	(2,458)
<i>Net Cash Provided by Operating Activities</i>	\$180,038

Noncash Capital Financing Activities

At December 31, 2015, the City had retainage payable related to the acquisition of capital assets of \$22,920.

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2016

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$61,405</u></u>
Liabilities	
Undistributed Monies	<u><u>\$61,405</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 1 – Description of the City and Reporting Entity

The City of Munroe Falls, Ohio, (the City) is incorporated as a municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services: security of persons and property (police and fire), public health and welfare, leisure time activities, transportation (highways and streets), water utility system and general government services.

The Mayor and City Council members are elected officials serving four-year terms. The department heads for police, fire, service, law and finance are appointed by the Mayor with approval from Council.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Munroe Falls this includes police, fire, emergency medical services, street construction, parks, water utility, general administrative services and a City Council.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; 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, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The City has no component units.

The City participates in one insurance purchasing pool, the Ohio Municipal League group rating pool. This organization is discussed in Note 17.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City's funds are classified as either governmental, proprietary or fiduciary.

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

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

Roads and Bridges Fund The roads and bridges special revenue fund accounts and reports property tax collections restricted for general construction, reconstruction, resurfacing, and repair of streets, roads and bridges. This fund did not have any budgetary activity during 2016; therefore, budgetary information is not provided.

Fire Department Special Levy Fund The fire department special levy special revenue fund accounts and reports property tax collections restricted for 50 percent of full-time fire department salaries and fringe benefits.

EMS Special Levy Fund The EMS special levy special revenue fund accounts for and reports property tax collections restricted to support EMS services in the City and 50 percent of full-time fire department salaries and fringe benefits.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The City's only proprietary fund is an enterprise fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has one major enterprise fund.

Water Fund This fund accounts for the treatment and provision of water to the residents and commercial users of the City.

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

Measurement Focus

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Basis of Accounting

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. 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 year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include pension reported in the government-wide statement of net position. The deferred outflows related to pension are explained in Note 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 9).

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

Cash and Cash Equivalents

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

The City utilizes a financial institution to service a capital lease agreement as payments come due. The balances in these accounts are presented on the statement of fund net position as "Cash and Cash Equivalents with Fiscal Agents."

During 2016, investments were limited to federal home loan bank bonds, federal home loan mortgage corporation bonds, federal national mortgage association bonds, and federal agriculture mortgage corporation bonds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2016 amounted to \$56,942, which includes \$24,391 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

Prepaid Items

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

Inventory

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

Inventory Held for Resale

Inventory held for resale represent water that the City distributes to its customers within city limits.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 enterprise fund are reported both in the business-type activity column of the government-wide statement of net position and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the position or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives	Business-Type Activity Estimated Lives
Land Improvements	25-35 years	N/A
Buildings and Improvements	25-60 years	25-60 years
Equipment	4-25 years	4-25 years
Infrastructure	50-70 years	50-70 years

The City's infrastructure consists of streets, sidewalks, curbs and culverts. The City reported infrastructure used in governmental activities for the first time in 2003. The City only reports the amounts acquired after 2002.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

Pensions

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary funds 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, and 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 loans are recognized as a liability on the governmental fund financial statements when due.

Fund Balance

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

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

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

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance or by State statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in the 2017 appropriated budget.

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

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

Net Position

Net position represents the difference between all other elements in the statement of net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes included resources which will be used for security of persons and property, transportation, public health and welfare, and leisure time activities.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are only charges for services for water services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Internal Activity

Transfers between governmental and business-type activity on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund.

Estimates

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

Minimum Fund Balance Policy

Council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) in the general fund. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. If fund balance falls below the minimum target level because it has been used, essentially as a “revenue” source, as dictated by current circumstances, the policy provides for actions to replenish the amount to the minimum target level. Generally, replenishment is to occur within a three-year period.

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control has been established by Council at the personal services and other object level within each fund and department. For the other object level the Finance Director has been authorized to allocate appropriations within each department and any object level which he maintains on his books, other than personal services.

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 3 – Changes in Accounting Principles and Restatement of Net Position

Changes in Accounting Principles

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the City’s financial statements.

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

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Restatement of Net Position

During 2016, it was determined that materials and supplies inventory was improperly recorded in the business-type activity fund and needed to be restated. Net Position went from \$4,366,140 to \$4,635,606 at December 21, 2015, which was an increase in net position of \$269,466.

Note 4 – Budgetary Basis of Accounting

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The major differences between the GAAP basis and the budget basis are:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Investments are reported at fair value (GAAP) rather than cost (budget).
3. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
4. Budgetary revenues and expenditures of the compensated absences fund are reclassified to the general fund for GAAP reporting.
5. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds.

Net Change in Fund Balance General and Major Special Revenue Funds			
	General	Fire Department Special Levy	EMS Special Levy
GAAP Basis	(\$222,843)	\$5,708	(\$35,198)
Adjustment for Revenue Accruals	(29,142)	0	12,749
Beginning Fair Value Adjustment for Investments	(28,923)	0	0
Ending Fair Value Adjustment for Investments	17,767	0	0
Adjustment for Expenditure Accruals	(37,172)	(2,935)	(14,586)
Perspective Difference:			
Compensated Absences	(4,741)	0	0
Adjustment for Encumbrances	(93,711)	0	(12,656)
Budget Basis	(\$398,765)	\$2,773	(\$49,691)

Note 5 – Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Federal National Mortgage Association, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

The City has passed an ordinance allowing the City to invest monies not required to be used for a specific period of six months or more in the following:

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

At year end, the City had \$400 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge security for repayment of all public moneys. The City has no investment policy dealing with deposit custodial risk beyond the requirement in State statute that requires securities purchased pursuant to this division shall be delivered into the custody of the Finance Director or an agent designated by the Finance Director.

At year-end, the carrying amount of the City's deposits was \$2,965,513 and the bank balance was \$3,083,081. \$221,663 of the uninsured bank balance was collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

As of December 31, 2016, the City had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value - Level Two Inputs:				
Federal Home Loan Bank Bonds	\$548,901	Less than two years	AA+	31.45 %
Federal Home Loan Mortgage Corporation Bonds	300,183	Less than one year	AA+	17.20
Federal Home Loan Mortgage Corporation Bonds	195,932	Less than two years	AA+	11.23
Federal Home Loan Mortgage Corporation Bonds	174,344	Less than three years	AA+	9.99
Federal National Mortgage Association Bonds	90,430	Less than three years	AA+	5.18
Federal National Mortgage Association Bonds	149,393	Less than four years	AA+	8.56
Federal Agriculture Mortgage Corporation Bonds	236,553	Less than three years	AA+	13.56
Federal Agriculture Mortgage Corporation Bonds	49,382	Less than four years	AA+	2.83
Total Investments	<u>\$1,745,118</u>			<u>100.00 %</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 chart identifies the City's recurring fair value measurements as of December 31, 2016. All of the City's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk. The Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Association Bonds, and Federal Agriculture Mortgage Corporation Bonds also carry a rating of AA+ by Standard & Poor's. The City has no investment policy that addresses credit risk.

Concentration of Credit Risk. With the exception of U.S. Treasury securities, federal government agency securities, and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution per the Council approved credit risk policy.

Note 6 – Receivables

Receivables at December 31, 2016, consisted primarily of municipal income taxes, property taxes, accounts, special assessments for street lighting, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full and are expected to be received within one year; however, property taxes and income taxes, although ultimately collectible, include some portions of delinquencies that will not be collected within one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 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 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The tax rate for all City operations for the year ended December 31, 2016, was \$3.20 per \$1,000 of assessed value, which is lower than the prior year due to the nonrenewal of a levy. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$105,489,810
Public Utility	<u>1,374,730</u>
Total Valuation	<u><u>\$106,864,540</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of Munroe Falls. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2016, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Municipal Income Taxes

The City levies a municipal income tax of 2 percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of up to 100 percent on the income earned outside of the City and paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually.

Additional increases in the City’s income tax rate would require voter approval. The income tax, by ordinance, is allocated, after expenditures for collections, with a minimum of 12 percent to the capital improvement fund and the remainder to the general fund. Amounts above the 12 percent may be allocated depending on the capital improvement projections.

Intergovernmental Receivable

A summary of the governmental activities’ principal items of intergovernmental receivables follows:

Governmental Activities:	
Gas Tax Distribution	\$89,384
Local Government	60,675
Homestead and Rollback	56,636
Motor Vehicle License Tax	38,649
Grants	<u>18,320</u>
Total	<u><u>\$263,664</u></u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 7 – Capital Leases

In prior years, the City entered into leases for a fire truck, dump trucks, excavators, a leaf vacuum, water meters and meter readers, EMS cots, salt spreaders, and a waterline replacement project. The lease obligations meet the criteria of a capital lease and have been recorded on the government-wide statements. Capital assets were capitalized at the present value of the minimum lease payments at the time the lease was entered into.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Asset:		
Equipment	\$522,732	\$1,430,432
Less: Accumulated depreciation	(165,461)	(56,736)
Total	\$357,271	\$1,373,696

Of the \$1,430,432 of equipment acquired through capital leases for business-type activity, \$580,956 is in progress of completion.

The leases provide for minimum, annual lease payments as follows:

	Governmental Activities	Business-Type Activity
2017	\$42,630	\$193,623
2018	41,891	193,019
2019	41,153	192,415
2020	40,420	191,815
2021	39,676	191,207
2022-2025	12,437	292,855
Total Minimum Lease Payment	218,207	1,254,934
Less: Amount Representing Interest	(17,866)	(143,763)
Present Value of Minimum Lease Payments	\$200,341	\$1,111,171

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 8 – Capital Assets

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

	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
<i>Governmental Activities:</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,608,396	\$0	\$0	\$1,608,396
<i>Capital Assets, being depreciated</i>				
Land Improvements	379,285	13,900	(27,897)	365,288
Buildings and Improvements	3,862,059	0	0	3,862,059
Equipment	3,010,025	73,188	(198,210)	2,885,003
Infrastructure	1,692,308	0	0	1,692,308
<i>Total Capital Assets, being depreciated</i>	<u>8,943,677</u>	<u>87,088</u>	<u>(226,107)</u>	<u>8,804,658</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(199,593)	(18,977)	17,233	(201,337)
Buildings and Improvements	(1,545,163)	(86,831)	0	(1,631,994)
Equipment	(1,992,893)	(203,343)	188,732	(2,007,504)
Infrastructure	(319,437)	(56,882)	0	(376,319)
<i>Total Accumulated Depreciation</i>	<u>(4,057,086)</u>	<u>(366,033) *</u>	<u>205,965</u>	<u>(4,217,154)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>4,886,591</u>	<u>(278,945)</u>	<u>(20,142)</u>	<u>4,587,504</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,494,987</u>	<u>(\$278,945)</u>	<u>(\$20,142)</u>	<u>\$6,195,900</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$41,396
Security of Persons and Property	179,021
Transportation	120,461
Leisure Time Activities	25,155
Total Depreciation Expense	\$366,033

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
<i>Business-Type Activity:</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$31,689	\$0	\$0	\$31,689
Construction in Progress	537,402	43,554	0	580,956
<i>Total Capital Assets, not being depreciated</i>	<u>569,091</u>	<u>43,554</u>	<u>0</u>	<u>612,645</u>
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	986,446	0	0	986,446
Equipment	1,033,225	0	(188,037)	845,188
Infrastructure	3,940,411	6,811	0	3,947,222
<i>Total Capital Assets, being depreciated</i>	<u>5,960,082</u>	<u>6,811</u>	<u>(188,037)</u>	<u>5,778,856</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(458,787)	(18,864)	0	(477,651)
Equipment	(609,423)	(81,704)	187,658	(503,469)
Infrastructure	(1,575,614)	(88,253)	0	(1,663,867)
<i>Total Accumulated Depreciation</i>	<u>(2,643,824)</u>	<u>(188,821)</u>	<u>187,658</u>	<u>(2,644,987)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>3,316,258</u>	<u>(182,010)</u>	<u>(379)</u>	<u>3,133,869</u>
<i>Business-Type Activity Capital Assets, Net</i>	<u>\$3,885,349</u>	<u>(\$138,456)</u>	<u>(\$379)</u>	<u>\$3,746,514</u>

Note 9 – Defined Benefit Pension Plans

Net Pension Liability

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

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan, and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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:

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$88,790 for 2016. Of this amount, \$8,931 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description – City full-time police and firefighters participate in the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF 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.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next 5 years of service credit, and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least 1 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 3 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 3 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:

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

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$93,139 for 2016. Of this amount, \$10,694 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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF’s total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City’s proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	<u>OPERS</u>	<u>OPF</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00615800%	0.02080300%	
Prior Measurement Date	<u>0.00579400%</u>	<u>0.01924640%</u>	
Change in Proportionate Share	<u>0.00036400%</u>	<u>0.00155660%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,066,644	\$1,338,271	\$2,404,915
Pension Expense	\$163,077	\$203,238	\$366,315

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

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$313,526	\$217,819	\$531,345
Changes in proportion and differences between City contributions and proportionate share of contributions	51,900	64,701	116,601
City contributions subsequent to the measurement date	<u>88,790</u>	<u>93,139</u>	<u>181,929</u>
Total Deferred Outflows of Resources	<u>\$454,216</u>	<u>\$375,659</u>	<u>\$829,875</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$20,609	\$3,758	\$24,367
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>22,933</u>	<u>0</u>	<u>22,933</u>
Total Deferred Inflows of Resources	<u>\$43,542</u>	<u>\$3,758</u>	<u>\$47,300</u>

\$181,929 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
2017	\$81,936	\$69,100	\$151,036
2018	86,949	69,100	156,049
2019	82,046	69,100	151,146
2020	70,953	56,625	127,578
2021	0	12,466	12,466
Thereafter	<u>0</u>	<u>2,371</u>	<u>2,371</u>
Total	<u>\$321,884</u>	<u>\$278,762</u>	<u>\$600,646</u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented as follows.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

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 that follows displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Discount Rate The discount rate used to measure the total pension liability was 8 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.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 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 (7 percent) or one percentage point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$1,699,423	\$1,066,644	\$532,913

Changes between Measurement Date and Report Date

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

Actuarial Assumptions – OPF

OPF’s total pension liability as of December 31, 2015, is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF’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.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

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

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

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

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	0.00 %	0.00 %	0.00 %
Domestic Equity	16.00	6.50	7.80
Non-US Equity	16.00	6.70	8.00
Core Fixed Income*	20.00	3.50	5.35
Global Inflation Protected Securities*	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	120.00 %		

Note: Assumptions are geometric.

* Levered 2x

** Numbers are net of expected inflation.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’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 of 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:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$1,765,001	\$1,338,271	\$976,790

Social Security

As of December 31, 2016, eighteen part-time firefighters and nine auxiliary police officers are covered by Social Security as they are not eligible to participate, as part-time employees, in OPERS or Ohio Police and Fire Pension Fund. The City’s liability is 6.2 percent of wages paid.

Note 10 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced for additional information.

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016, remained at 2.0 percent for both the Traditional Pension and Combined plans. The 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 third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the City's contribution allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$14,798, \$15,355, and \$15,715, respectively. For 2016, 89.94 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Ohio Police and Fire Pension Fund

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OPF which were allocated to fund postemployment health care benefits for police and firefighters were \$1,710 and \$599 for the year ended December 31, 2016, \$2,059 and \$416 for the year ended December 31, 2015, and \$1,618 and \$322 for the year ended December 31, 2014. For 2016, 88.52 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 11 – Other Employee Benefits

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service. Current policy credits vacation leave on the hiring date anniversary of each year for all full time employees. Unused vacation is cumulative and may not exceed 200 hours carryover per year for all full time employees. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Sick leave is earned for all full time employees at the rate of one and one-quarter days each month. Unused sick leave may be accumulated up to 2,080 hours. Upon retirement, the first 960 hours accumulated is compensated at 50 percent and the remaining hours at 25 percent.

Full time patrol officers and sergeants earn sick leave at a rate of ten hours for each completed month of service. Full time patrol officers and sergeants may accumulate an unlimited amount of sick leave. Upon retirement, the first 2,000 hours are compensated at 50 percent and all hours over 2,000 are compensated at 25 percent.

Insurance

The City provides health insurance to its employees through Summacare. Employees covered under union contracts may have different terms. All employees currently contribute 15 percent towards their health premium.

Note 12 – Long-Term Obligations

Original issue amounts and interest rates of the City’s debt issues are as follows:

Debt Issue	Interest Rate	Original Issue	Date of Maturity
<i>Governmental Activities:</i>			
2011 Capital Asset Acquisition Serial Bonds	2 - 4%	\$170,000	December 1, 2018
<i>Business-Type Activity:</i>			
2011 Capital Asset Acquisition Serial Bonds	2 - 4.5	440,000	December 1, 2026

The changes in long-term obligations during the year were as follows:

	Balance 12/31/2015	Issued	Retired	Balance 12/31/2016	Amounts Due In One Year
Governmental Activities:					
2011 Capital Asset Acquisition Bonds	\$75,000	\$0	(\$25,000)	\$50,000	\$25,000
Premium on Bonds	4,510	0	(1,502)	3,008	0
Capital Leases	262,868	0	(62,527)	200,341	36,753
Compensated Absences	73,238	48,120	(25,719)	95,639	35,255
Net Pension Liability:					
OPERS	628,939	224,376	0	853,315	0
OPF	997,044	341,227	0	1,338,271	0
Total Governmental Activities	\$2,041,599	\$613,723	(\$114,748)	\$2,540,574	\$97,008

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	Balance 12/31/2015	Issued	Retired	Balance 12/31/2016	Amounts Due In One Year
Business-Type Activity:					
2011 Capital Asset Acquisition Bonds	\$345,000	\$0	(\$25,000)	\$320,000	\$25,000
Premium on Bonds	16,484	0	(1,498)	14,986	0
Capital Leases	1,264,798	0	(153,627)	1,111,171	158,072
Compensated Absences	0	5,051	0	5,051	3,059
Net Pension Liability:					
OPERS	69,882	143,447	0	213,329	0
Total Business-Type Activity	<u>\$1,696,164</u>	<u>\$148,498</u>	<u>(\$180,125)</u>	<u>\$1,664,537</u>	<u>\$186,131</u>

On September 1, 2011, the City issued \$610,000 of General Obligation Bonds for the purpose of acquiring capital assets. These bonds were issued at a premium of \$33,002, which will be amortized over the life of the bonds. Payments are made from the bond retirement debt service fund and the water fund. These bonds are part of a larger issuance of \$6.5 million in fractionalized interest bonds relating to the Ohio Capital Asset Financing Program with six other political subdivisions. These bonds are several and not joint obligations. None of the political subdivisions has any obligation to pay the principal of or interest on the bonds of any other political subdivision. Payment by a political subdivision of principal and interest on its portion of the bonds will fully discharge that subdivision of its obligations.

In June 2004, the City entered into a capital lease to purchase a fire truck through the Ohio Department of Administrative Services Ohio Cooperative Purchasing Program. The cost of the fire truck and the amount of the lease is \$252,931, with an interest rate of 4.12 percent. Annual payments of principal and interest are to be made through June 2016. Payments are to be paid out of the City's capital improvement fund.

In October 2014, the City entered into a capital lease to purchase equipment through FirstMerit Bank, N.A. The cost of the equipment and the amount of the lease is \$700,000, with an interest rate of 3.38 percent. Annual payments of principal and interest are to be made through October 2021. Payments are to be paid out of the City's capital improvement fund and the water fund. At December 31, 2016, \$31,544 of the proceeds were unspent in the water fund.

In April 2015, the City entered into a capital lease to purchase waterlines through FirstMerit Bank, N.A. The amount of the lease is \$600,000, with an interest rate of 3.22 percent. Annual payments of principal and interest are to be made through October 2025. Payments are to be paid out of the City's water fund.

In June 2015, the City entered into a capital lease to purchase two snow plow trucks and two EMS cots through Peoples Bank. The amount of the lease is \$314,250, with an interest rate of 2.95 percent. Annual payments of principal and interest are to be made through March 2022. Payments are to be paid out of the City's EMS special levy fund, capital improvement fund and the water fund.

The compensated absences liability will be paid out of the City's general fund, street construction, maintenance and repair fund, fire department special levy fund, EMS special levy fund, and water fund. There is no repayment schedule for the net pension liability. Employer pension contributions are made from the following funds: general fund, street construction, maintenance and repair fund, fire department special levy fund, EMS special levy fund, and water fund. For additional information related to the net pension liability see Note 9.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

As of December 31, 2016, the City's overall legal debt margin was \$11,174,910 and the unvoted legal debt margin was \$5,511,683. Principal and interest requirements to retire the outstanding debt at December 31, 2016, are as follows:

	Governmental Activities		Business-Type Activity	
	General Obligation		General Obligation	
	Bonds		Bonds	
	Principal	Interest	Principal	Interest
2017	\$25,000	\$2,000	\$25,000	\$13,650
2018	25,000	1,000	30,000	12,650
2019	0	0	30,000	11,450
2020	0	0	30,000	10,100
2021	0	0	30,000	8,750
2022-2026	0	0	175,000	24,025
Totals	\$50,000	\$3,000	\$320,000	\$80,625

Note 13 – Contingencies

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experiences, management believes such refunds, if any, would not be material.

Litigation

The City is not currently a party to any legal proceedings which would have a material impact on the financial statements.

Note 14 – Significant Commitments

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

Governmental Activities:	
General	\$93,711
EMS Special Levy	12,656
Capital Improvement	25,100
Other Governmental Funds	23,257
	154,724
Business-Type Activity:	
Water	53,247
Total	\$207,971

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 15 – Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2016, the City's property and liability insurance carrier was Selective Insurance Company.

The City insured its property, including building and contents, up to \$10,980,261 with a \$500 deductible. In addition, the City carried insurance for general liability, auto liability, public officials liability, and law enforcement liability with limits of \$1,000,000 per occurrence. The City also carried inland marine insurance for scheduled equipment with a \$500 deductible and crime insurance covering employee theft per loss up to \$250,000, with a \$1,000 deductible. The umbrella liability has a \$5,000,000 limit per occurrence and an annual aggregate limit of \$5,000,000. The aggregate limit applies separately to each line of coverage and per location. There has not been a significant reduction in coverage from the prior year. Claims have not exceeded this commercial coverage in any of the past three years.

Workers' Compensation

The City participates in the Ohio Municipal League's (OML) group retrospective rating pool (See Note 17). The intent of the OML is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management by virtue of its grouping and representation with other participants. The workers' compensation experience rating of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the group. Each participant pays its workers' compensation premium to the State based on the rate for the OML group rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OML. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the OML. Participation in the OML is limited to cities that can meet the OML's selection criteria. The firm of Comp Management Incorporated provides administrative, cost control and actuarial services to the OML.

Note 16 – Interfund Transfers

During 2016, there was one transfer of \$165,317 from the storm sewer improvements capital projects fund to the water enterprise fund for the purpose of the preventative maintenance project with the EPA being completed and the escrow account being closed.

Note 17 – Insurance Purchasing Pool

The Ohio Municipal League has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the City and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management Incorporated to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on claims experience of each member as compared to the total claims experience of the group.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 18 – Fund Balances

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

Fund Balances	General	Fire Department Special Levy	EMS Special Levy	Other Governmental Funds	Total
Nonspendable:					
Inventory	\$31,170	\$0	\$0	\$38,633	\$69,803
Prepays	11,581	68	766	1,949	14,364
Total Nonspendable	42,751	68	766	40,582	84,167
Restricted to:					
Public Safety	0	470,758	409,478	62,422	942,658
Debt Service	0	0	0	4,133	4,133
Transportation	0	0	0	236,809	236,809
Capital Improvements	0	0	0	30,647	30,647
Total Restricted	0	470,758	409,478	334,011	1,214,247
Committed to:					
Compensated Absences	69,985	0	0	0	69,985
Public Safety	0	0	0	56,193	56,193
Capital Improvements	0	0	0	224,322	224,322
Total Committed	69,985	0	0	280,515	350,500
Assigned to:					
2017 Operations	320,830	0	0	0	320,830
Purchases on Order:					
Administration	34,767	0	0	0	34,767
Police	4,708	0	0	0	4,708
Fire	5,720	0	0	0	5,720
Streets	16,992	0	0	0	16,992
Public Health	19,570	0	0	0	19,570
Parks	2,094	0	0	0	2,094
Total Assigned	404,681	0	0	0	404,681
Unassigned	989,415	0	0	0	989,415
Total Fund Balances	\$1,506,832	\$470,826	\$410,244	\$655,108	\$3,043,010

Note 19 – Subsequent Event

On July 13, 2017, the City was ordered to pay Beck Energy Corporation’s attorney fees in the amount of \$45,000 due to a court case concerning zoning. The City has since then filed an appeal to this claim. This appeal is still in progress.

City of Munroe Falls, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
*Last Three Years (1) **

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.00615800%	0.00579400%	0.00579400%
City's Proportionate Share of the Net Pension Liability	\$1,066,644	\$698,821	\$683,037
City's Covered Payroll	\$767,736	\$710,308	\$678,300
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	138.93%	98.38%	100.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

City of Munroe Falls, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
*Last Three Years (1) **

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.02080300%	0.01924640%	0.01924640%
City's Proportionate Share of the Net Pension Liability	\$1,338,271	\$997,044	\$937,360
City's Covered Payroll	\$495,035	\$407,370	\$432,746
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	270.34%	244.75%	216.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

City of Munroe Falls, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)

	2016	2015	2014	2013
Contractually Required Contribution	\$88,790	\$92,128	\$85,237	\$88,179
Contributions in Relation to the Contractually Required Contribution	(88,790)	(92,128)	(85,237)	(88,179)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$739,917	\$767,736	\$710,308	\$678,300
Contributions as a Percentage of Covered Payroll	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2013 is not available. An additional column will be added each year.

City of Munroe Falls, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	2016	2015	2014	2013
Contractually Required Contribution	\$93,139	\$97,801	\$80,545	\$73,076
Contributions in Relation to the Contractually Required Contribution	(93,139)	(97,801)	(80,545)	(73,076)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$461,829	\$495,035	\$407,370	\$432,746
Contributions as a Percentage of Covered Payroll	20.17%	19.76%	19.77%	16.89%

2012	2011	2010	2009	2008	2007
\$66,710	\$74,220	\$82,074	\$84,424	\$82,648	\$77,586
(66,710)	(74,220)	(82,074)	(84,424)	(82,648)	(77,586)
\$0	\$0	\$0	\$0	\$0	\$0
\$477,808	\$532,642	\$594,646	\$613,196	\$600,230	\$562,308
13.96%	13.93%	13.80%	13.77%	13.77%	13.80%

(This Page is Intentionally Left Blank)



Dave Yost • Auditor of State

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

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 27, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 and 2006-002.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

December 27, 2017

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

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

1. Income Tax Allocation

<i>Finding Number</i>	2016-001
-----------------------	----------

NONCOMPLIANCE AND MATERIAL WEAKNESS

Sound financial reporting is the responsibility of the City's management and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

City Resolution No. 2006-10, Section 1.B. states that capital expenditures will be funded at the level directly corresponding to the capital budgets approved by City Council during the budget process, with a minimum of twelve percent (12%) of the net income tax collections transferred to the Capital Improvement Fund. Section 2 of Resolution 2006-10 states the allocation of income tax revenue shall remain in effect until such time in which City Council deems it necessary to alter the allocation of said funds. During 2016, the City did not allocate and transfer a minimum of 12% of net income tax collections which when calculated, totaled \$146,207, from the General Fund to the Capital Improvement Fund as required per Resolution No. 2006-10. In addition, City Council did not approve a resolution to alter the allocation of said funds.

The above errors were not identified and corrected prior to the City preparing their financial statement due to deficiencies in the City's internal controls over financial statement monitoring.

The City has subsequently transferred \$150,000 income tax monies from the General Fund to the Capital Projects Fund on October 17, 2017 to comply with Resolution 2017-67 and adjustments were made to correct the 2016 financial statements.

To help ensure accurate financial reporting, the City should follow the Income Tax Allocation set forth by Resolution No. 2006-10 or amend the respective resolution to alter the allocation of said funds.

Official's Response: As noted, the City subsequently transferred monies from the General Fund to allocate income tax revenue to the Capital Improvement Fund.

2. Financial Statement Reporting

<i>Finding Number</i>	2016-002
-----------------------	----------

NONCOMPLIANCE AND MATERIAL WEAKNESS

Sound financial reporting is the responsibility of the City's management and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

Ohio Revised Code section 5705.10 (C) states that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

**Finding Number – 2016-002
(Continued)**

- Homestead and rollback receipts were improperly posted in the General Fund rather than the Fire Department Special Levy Fund which resulted in an overstatement of General Fund Intergovernmental Revenue and an understatement of Fire Department Special Levy Fund Intergovernmental Revenue totaling \$11,490. This posting error was subsequently corrected by the City on April 27, 2017.
- Homestead and rollback receipts were improperly posted in the General Fund rather than the EMS Special Levy Fund which resulted in an overstatement of General Fund Intergovernmental Revenue and an understatement of EMS Special Levy Fund Intergovernmental Revenue totaling \$13,022. This posting error was subsequently corrected by the City on April 27, 2017.

Failure to pay monies into the proper fund(s) could allow monies to be expended for unallowable purposes and inaccurate financial reporting.

In addition, the following errors were not identified and corrected prior to the City preparing their financial statements due to deficiencies in the City's internal controls over financial statement monitoring:

- Income Tax Revenue was overstated and Unavailable Revenue balances were understated in the General Fund and the Capital Improvement Fund by \$21,860 and \$3,008, respectively.
- Restricted Fund Balance was overstated and Committed Fund Balance was understated by \$77,330 and \$227,330, respectively within Other Governmental Funds Opinion Unit.
- Accounts Payable and General Governmental Expenditures were understated in the General Fund by \$27,495 because the City did not accrue three 2016 invoices paid in 2017 as year-end liabilities.
- Accounts Payable and Contractual Services Expense were understated in the Water Fund by \$31,693 because the City did not accrue three 2016 invoices paid in 2017 as year-end liabilities.

The financial statements have been adjusted for the errors noted above.

To help ensure accurate financial reporting, the City should implement additional controls over the preparation of their financial statements which would assist in the detection and prevention of financial statement reporting errors.

Official's Response:

The posting error of the Homestead and Rollback was recognized by the City and corrected as noted.

A portion of the 2017 income tax collection received in January was inadvertently included in the calculation of the 2016 tax receivable and noted. The Restricted Fund Balance and Committed Fund Balance are classification errors as a result of the Income tax allocation between the General and Capital Improvement funds, noted in Finding 2016-001.

The City has implemented procedures to flag payables to accrue at year end.

City of Munroe Falls



James W. Armstrong, Mayor

*43 Munroe Falls Avenue
Munroe Falls, Ohio 44262
330-688-7491 phone
330-688-3720 fax*

Karen L. Reynolds
Director of Finance
[*kreynolds@munroefalls.com*](mailto:kreynolds@munroefalls.com)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Financial Statement Adjustments – Material financial statement errors were noted in the prior year audit.	Not corrected	Material financial statement errors were noted during the fiscal year 2016 audit under finding 2016-002.

"A great place to call home"

Since 1838

This page intentionally left blank.



Dave Yost • Auditor of State

CITY OF MUNROE FALLS

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2018**