



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WATERVILLE
LUCAS COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2017
Fiscal Year Audited Under GAGAS: 2017

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Dave Yost • Auditor of State

City Council
City of Waterville
25 North Second Street
Waterville, Ohio 43566

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

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

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

Dave Yost
Auditor of State

July 26, 2018

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City of Waterville
Lucas County

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Independent Auditor's Report

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566

To the Members of 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 Waterville, Lucas County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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 managements responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.



BHM CPA Group Inc.
Piketon, Ohio
June 22, 2018

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The discussion and analysis of the City of Waterville's financial performance provides an overview of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2017 are as follows:

In total, the City's net position increased almost 4 percent from the prior year; governmental activities increased 3 percent and business-type activities increased 4 percent.

The Water and Sewer enterprise funds both had an operating income and an increase in net position.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City of Waterville's financial position.

The statement of net position and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General, Various Improvements, Water, and Sewer funds.

REPORTING THE CITY AS A WHOLE

The statement of net position and the statement of activities reflect how the City did financially during 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the City's net position and change in net position. This change in net position is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets (buildings; streets; water, sewer, storm sewer lines, etc.). These factors must be considered when assessing the overall health of the City.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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

- Governmental Activities - Most of the City's programs and services are reported here, including security of persons and property, leisure time activities, community environment, basic utility services, transportation, and general government. These services are primarily funded by property taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.
- Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water and sewer services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, Various Improvements, Water, and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

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

Enterprise Funds - The City's enterprise funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2017 and 2016.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<u>Assets</u>						
Current and Other Assets	\$5,899,964	\$5,731,790	\$1,903,920	\$2,013,063	\$7,803,884	\$7,744,853
Capital Assets, Net	15,450,374	15,116,724	14,035,554	13,993,176	29,485,928	29,109,900
Total Assets	21,350,338	20,848,514	15,939,474	16,006,239	37,289,812	36,854,753
<u>Deferred Outflows of Resources</u>						
Pension	920,869	882,259	188,819	138,825	1,109,688	1,021,084
<u>Liabilities</u>						
Current and Other Liabilities	566,059	568,642	1,253,454	1,517,080	1,819,513	2,085,722
Long-Term Liabilities						
Pension	3,372,396	3,052,155	478,520	353,740	3,850,916	3,405,895
Other Amounts	2,333,540	2,619,075	5,183,961	5,445,746	7,517,501	8,064,821
Total Liabilities	6,271,995	6,239,872	6,915,935	7,316,566	13,187,930	13,556,438
<u>Deferred Inflows of Resources</u>						
Pension	11,222	20,335	2,847	7,613	14,069	27,948
Other Amounts	401,743	400,945	0	0	401,743	400,945
Total Deferred Inflows of Resources	412,965	421,280	2,847	7,613	415,812	428,893
<u>Net Position</u>						
Net Investment in Capital Assets	12,879,951	12,270,882	9,271,900	8,963,391	22,151,851	21,234,273
Restricted	2,832,755	2,398,095	0	0	2,832,755	2,398,095
Unrestricted (Deficit)	(126,459)	400,644	(62,389)	(142,506)	(188,848)	258,138
Total Net Position	\$15,586,247	\$15,069,621	\$9,209,511	\$8,820,885	\$24,795,758	\$23,890,506

The net pension liability reported by the City at December 31, 2017, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements 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.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 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 Statement No. 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 Statement No. 68 requires the net pension liability to equal the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick 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 City. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 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 outflows/inflows.

The change in deferred outflows/inflows for pension noted in the above table reflects the difference between projected and actual earnings on investments related to the net pension liability. The increase in the net pension liability represents the City's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

As indicated previously, net position for governmental activities increased a modest 3 percent and as can be seen in the above table, there were no changes of significance to note. The decrease in unrestricted net position can be attributed to the increase in the net pension liability.

There were also few changes of significance for the business-type activities. The decrease in current and other liabilities is due to payables that were outstanding at the end of 2016 related to a water line connector project. The project was completed in 2017. The decrease in other long-term liabilities reflects scheduled debt retirement.

Table 2 reflects the change in net position for 2017 and 2016.

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$599,743	\$605,341	\$2,501,534	\$2,387,818	\$3,101,277	\$2,993,159
Operating Grants, Contributions, and Interest	282,366	301,194	0	0	282,366	301,194
Capital Grants and Contributions	829,340	30,037	193,873	0	1,023,213	30,037
Total Program Revenues	1,711,449	936,572	2,695,407	2,387,818	4,406,856	3,324,390
General Revenues						
Property Taxes Levied for General Purposes	374,718	372,743	0	0	374,718	372,743
Property Taxes Levied for Police Pension	33,068	32,895	0	0	33,068	32,895
Municipal Income Taxes	3,311,997	3,446,532	0	0	3,311,997	3,446,532
Payment in Lieu of Taxes	99,843	92,764	0	0	99,843	92,764
Grants and Entitlements not Restricted to Specific Programs	293,689	294,582	0	0	293,689	294,582
Franchise Taxes	85,810	89,938	0	0	85,810	89,938
Interest	14,537	25,090	8,750	27,075	23,287	52,165
Other	155,298	132,819	15,047	10,216	170,345	143,035
Total General Revenues	4,368,960	4,487,363	23,797	37,291	4,392,757	4,524,654
Total Revenues	6,080,409	5,423,935	2,719,204	2,425,109	8,799,613	7,849,044
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,332,533	1,353,223	0	0	1,332,533	1,353,223
Fire	755,586	747,937	0	0	755,586	747,937
Other	108,825	92,572	0	0	108,825	92,572
Leisure Time Activities	189,108	87,290	0	0	189,108	87,290
Community Environment	96,887	242,530	0	0	96,887	242,530
Basic Utility Services	268,916	249,868	0	0	268,916	249,868
Transportation	1,409,506	1,229,646	0	0	1,409,506	1,229,646
General Government	1,323,433	1,235,298	0	0	1,323,433	1,235,298
Interest and Fiscal Charges	63,989	66,106	0	0	63,989	66,106

(continued)

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 2
Change in Net Position
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<u>Program Expenses</u> (continued)						
Water	\$0	\$0	\$1,462,771	\$1,524,595	\$1,462,771	\$1,524,595
Sewer	0	0	882,807	866,566	882,807	866,566
Total Expenses	<u>5,548,783</u>	<u>5,304,470</u>	<u>2,345,578</u>	<u>2,391,161</u>	<u>7,894,361</u>	<u>7,695,631</u>
Increase in Net Position Before Transfers	531,626	119,465	373,626	33,948	905,252	153,413
Transfers	(15,000)	(6,000)	15,000	6,000	0	0
Increase in Net Position	516,626	113,465	388,626	39,948	905,252	153,413
Net Position Beginning of Year	15,069,621	14,956,156	8,820,885	8,780,937	23,890,506	23,737,093
Net Position End of Year	<u>\$15,586,247</u>	<u>\$15,069,621</u>	<u>\$9,209,511</u>	<u>\$8,820,885</u>	<u>\$24,795,758</u>	<u>\$23,890,506</u>

For governmental activities, there was a substantial increase in program revenues due to the contribution of capital assets by a developer (Shoemaker Drive and Timber Wood Court) as well as resources from the Ohio Department of Transportation and the Ohio Public Works Commission related to the Anthony Wayne Trail project. There was little change in general revenues. Expenses increased 5 percent overall which can be related to personnel costs (salaries and benefits) and the increase in pension expense.

The City's business-type activities are generally almost entirely funded through charges for services; however, in 2017, the City received developer donated capital assets for water and sewer lines on Shoemaker Drive and Timber Wood Court. There was little change in total expenses.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Security of Persons and Property				
Police	\$1,332,533	\$1,353,223	\$1,314,907	\$1,332,012
Fire	755,586	747,937	628,756	611,847
Other	108,825	92,572	108,825	92,572
Leisure Time Activities	189,108	87,290	185,924	79,783
Community Environment	96,887	242,530	94,011	239,896
Basic Utility	268,916	249,868	9,477	5,811
Transportation	1,409,506	1,229,646	274,616	890,126
General Government	1,323,433	1,235,298	1,156,829	1,049,745
Interest and Fiscal Charges	63,989	66,106	63,989	66,106
Total Expenses	<u>\$5,548,783</u>	<u>\$5,304,470</u>	<u>\$3,837,334</u>	<u>\$4,367,898</u>

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

General revenues provided for 69 percent of the costs of providing governmental services in 2017 (82 percent in 2016); the difference being the developer donated assets in 2017 towards the transportation program. The City's most significant revenue source is municipal income taxes. Dependence on municipal income taxes and, to a lesser degree, property taxes is critical to the City's operations; there are few programs which are well supported through program revenues. The basic utility program charges for services include the fees for trash collection. The transportation program receives charges for services in the form of permissive motor vehicle license monies. The transportation program also receives operating grants in the form of State levied motor vehicle license fees and gas taxes, and, in 2017, received developer donated assets.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Various Improvements capital projects fund.

The General Fund had a 5 percent (approximately \$89,000) decrease in fund balance. There was little change in revenues and expenditures from the prior year; however, the transfer of resources to support activities/needs of other funds increased \$132,000 from 2016.

There was a sizable decrease in fund balance in the Various Improvements Fund. Revenues were similar to the prior year; however, there was an significant increase in expenditures for improvement projects; particularly related to the transportation program.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds.

There was an increase in net position of 7 percent in the Water Fund. There was a 6 percent increase in revenue due to a rate increase approved in November and approximately \$71,000 decrease in expenses.

There was a modest 2 percent increase in net position for the Sewer Fund. Revenues and expenses were fairly similar to the prior year.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January.

The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget as well as from the final budget to actual revenues were not significant. For expenditures changes from the original budget to the final budget were not significant. The savings from the final budget to actual expenditures were due to conservative budgeting.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's net investment in capital assets for governmental and business-type activities as of December 31, 2017, was \$12,879,951 and \$9,271,900, respectively (net of accumulated depreciation and related debt). This net investment in capital assets includes land and land improvements, buildings, equipment, vehicles, and infrastructure (streets and water, sewer, and storm sewer lines). For governmental activities, the additions for 2017 primarily consisted of street improvements, land improvements, and two police cruisers. Additions for business-type activities were largely water line construction related. Disposals for governmental activities included the vehicles that were replaced by the new additions mentioned above. Disposals were minimal for business-type activities. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2017, the City had \$1,525,000 in outstanding bond anticipation notes, \$4,940,000 in general obligation bonds, \$638,343 in Ohio Public Works Commission loans, \$33,195 in Ohio Water Development Authority loans, and \$1,482,022 in a long-term loan with Lucas County. Of this total outstanding debt, \$5,167,436 will be paid from business-type activities.

In addition to the debt outlined above, the City's long-term obligations also include the net pension liability and compensated absences. For further information regarding the City's debt, refer to Notes 16 and 17 to the basic financial statements.

CURRENT ISSUES

The City continues to address budget challenges brought on by the economic downturn of the late 2000's and the State reductions in local government funding that have occurred. The expectation is that the State will maintain the level of local government funding for the near future and not reduce it any further, however, understanding that additional cuts may occur. The total loss from the State discontinuing the tangible personal property and inheritance taxes has been detrimental to the General Fund. Slow positive growth in the economy has helped property tax valuations stabilize and the resulting revenue to grow slightly.

The City has three labor unions, the Ohio Patrolmen's Benevolent Association, including one contract for police command officers and one contract for patrol officers, and the Teamsters Union representing the public works technicians. The current contracts were effective January 1, 2018, a three-year period.

Other current issues and events in the City include the following:

- Currently under construction along Pray Boulevard north of State Route 64 are a senior living community with one hundred sixty-two dwelling units and a thirty-one lot single family residential subdivision. A two hundred fifty-two unit apartment complex is also proposed on Pray Boulevard.
- At the Browning Masonic Community, Phase 2 of a "villa" residential development for senior living is currently under construction consisting of twenty lots.
- During 2017, the City issued \$1,525,000 in bond anticipation notes to retire notes previously issued for construction/improvement related projects. The notes had an interest rate of 2 percent and mature on July 25, 2018.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

- A 43,000 square foot addition to the existing 80,000 square foot Kroger retail store was recently completed.
- An additional forty-six lots are being planned for the Waterville Meadows and Farnsworth Village residential subdivisions.
- An addition to the Waterville Primary School, Grades K -6, is currently under construction.
- The new \$13 million Waterville bridge over the Maumee River, replacing the current bridge build in 1948, is presently under construction with an expected completion date of 2019.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well-being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Jon Gochenour, Finance Director, City of Waterville, 25 North Second Street, Waterville, Ohio 43566, at jgoch@waterville.org, or at 419-878-8100.

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City of Waterville
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total*
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,183,592	\$1,595,330	\$4,778,922
Accounts Receivable	103,949	275,991	379,940
Accrued Interest Receivable	6,127	2,570	8,697
Due from Other Governments	1,001,538	0	1,001,538
Municipal Income Taxes Receivable	1,119,867	0	1,119,867
Other Local Taxes Receivable	4,326	0	4,326
Prepaid Items	23,623	5,520	29,143
Materials and Supplies Inventory	35,633	24,509	60,142
Property Taxes Receivable	405,912	0	405,912
Special Assessments Receivable	15,397	0	15,397
Nondepreciable Capital Assets	1,939,933	120,693	2,060,626
Depreciable Capital Assets, Net	13,510,441	13,914,861	27,425,302
Total Assets	21,350,338	15,939,474	37,289,812
<u>Deferred Outflows of Resources</u>			
Pension	920,869	188,819	1,109,688
<u>Liabilities</u>			
Accrued Wages Payable	65,690	10,912	76,602
Accounts Payable	68,333	3,178	71,511
Contracts Payable	177,362	0	177,362
Due to Other Governments	49,010	133,150	182,160
Retainage Payable	17,037	3,540	20,577
Accrued Interest Payable	8,327	17,974	26,301
Notes Payable	180,300	1,084,700	1,265,000
Long-Term Liabilities			
Due Within One Year	527,544	325,008	852,552
Due in More Than One Year			
Net Pension Liability	3,372,396	478,520	3,850,916
Other Amounts Due in More Than One Year	1,805,996	4,858,953	6,664,949
Total Liabilities	6,271,995	6,915,935	13,187,930
<u>Deferred Inflows of Resources</u>			
Property Taxes	401,743	0	401,743
Pension	11,222	2,847	14,069
Total Deferred Inflows of Resources	412,965	2,847	415,812
<u>Net Position</u>			
Net Investment in Capital Assets	12,879,951	9,271,900	22,151,851
Restricted for			
Capital Projects	2,350,297	0	2,350,297
Other Purposes	37,579	0	37,579
Street Construction, Maintenance, and Repair	444,879	0	444,879
Unrestricted (Deficit)	(126,459)	(62,389)	(188,848)
Total Net Position	\$15,586,247	\$9,209,511	\$24,795,758

*After deferred outflows and deferred inflows related to the change in internal proportionate share of pension related items have been eliminated

See Accompanying Notes to the Basic Financial Statements

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,332,533	\$12,681	\$4,945	\$0
Fire	755,586	126,830	0	0
Other	108,825	0	0	0
Leisure Time Activities	189,108	3,184	0	0
Community Environment	96,887	2,876	0	0
Basic Utility Services	268,916	259,439	0	0
Transportation	1,409,506	28,129	277,421	829,340
General Government	1,323,433	166,604	0	0
Interest and Fiscal Charges	63,989	0	0	0
Total Governmental Activities	5,548,783	599,743	282,366	829,340
<u>Business-Type Activities</u>				
Water	1,462,771	1,669,537	0	48,685
Sewer	882,807	831,997	0	145,188
Total Business-Type Activities	2,345,578	2,501,534	0	193,873
Total	\$7,894,361	\$3,101,277	\$282,366	\$1,023,213

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied Police Pension
Municipal Income Taxes
Payment in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Taxes
Interest
Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,314,907)	\$0	(\$1,314,907)
(628,756)	0	(628,756)
(108,825)	0	(108,825)
(185,924)	0	(185,924)
(94,011)	0	(94,011)
(9,477)	0	(9,477)
(274,616)	0	(274,616)
(1,156,829)	0	(1,156,829)
(63,989)	0	(63,989)
<u>(3,837,334)</u>	<u>0</u>	<u>(3,837,334)</u>
0	255,451	255,451
0	94,378	94,378
<u>0</u>	<u>349,829</u>	<u>349,829</u>
<u>(3,837,334)</u>	<u>349,829</u>	<u>(3,487,505)</u>
374,718	0	374,718
33,068	0	33,068
3,311,997	0	3,311,997
99,843	0	99,843
293,689	0	293,689
85,810	0	85,810
14,537	8,750	23,287
155,298	15,047	170,345
<u>4,368,960</u>	<u>23,797</u>	<u>4,392,757</u>
<u>(15,000)</u>	<u>15,000</u>	<u>0</u>
<u>4,353,960</u>	<u>38,797</u>	<u>4,392,757</u>
516,626	388,626	905,252
<u>15,069,621</u>	<u>8,820,885</u>	<u>23,890,506</u>
<u>\$15,586,247</u>	<u>\$9,209,511</u>	<u>\$24,795,758</u>

City of Waterville
Balance Sheet
Governmental Funds
December 31, 2017

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,394,452	\$1,329,110	\$460,030	\$3,183,592
Accounts Receivable	82,508	0	21,441	103,949
Accrued Interest Receivable	2,292	3,349	486	6,127
Due from Other Governments	142,928	729,377	129,233	1,001,538
Municipal Income Taxes Receivable	839,900	279,967	0	1,119,867
Other Local Taxes Receivable	0	0	4,326	4,326
Prepaid Items	18,684	0	4,939	23,623
Materials and Supplies Inventory	11,442	0	24,191	35,633
Property Taxes Receivable	373,329	0	32,583	405,912
Special Assessments Receivable	0	15,397	0	15,397
Total Assets	\$2,865,535	\$2,357,200	\$677,229	\$5,899,964
<u>Liabilities</u>				
Accrued Wages Payable	\$58,044	\$0	\$7,646	\$65,690
Accounts Payable	54,395	3,067	10,871	68,333
Contracts Payable	0	176,962	400	177,362
Due to Other Governments	45,135	0	3,875	49,010
Retainage Payable	0	17,037	0	17,037
Accrued Interest Payable	0	1,571	0	1,571
Notes Payable	0	180,300	0	180,300
Total Liabilities	157,574	378,937	22,792	559,303
<u>Deferred Inflows of Resources</u>				
Property Taxes	369,498	0	32,245	401,743
Unavailable Revenue	781,181	946,622	133,776	1,861,579
Total Deferred Inflows of Resources	1,150,679	946,622	166,021	2,263,322
<u>Fund Balance</u>				
Nonspendable	30,126	0	29,130	59,256
Restricted	0	1,031,641	366,292	1,397,933
Committed	32,697	0	92,994	125,691
Assigned	50,460	0	0	50,460
Unassigned	1,443,999	0	0	1,443,999
Total Fund Balance	1,557,282	1,031,641	488,416	3,077,339
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$2,865,535	\$2,357,200	\$677,229	\$5,899,964

See Accompanying Notes to the Basic Financial Statements

City of Waterville
 Reconciliation of Total Governmental Fund Balance
 to Net Position of Governmental Activities
 December 31, 2017

Total Governmental Fund Balance		\$3,077,339
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,450,374
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Accounts Receivable	77,223	
Accrued Interest Receivable	4,069	
Due from Other Governments	964,526	
Municipal Income Taxes Receivable	794,443	
Delinquent Property Taxes Receivable	4,169	
Special Assessments Receivable	17,149	
		1,861,579
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued Interest Payable	(6,756)	
Bond Anticipation Notes Payable	(260,000)	
General Obligations Bonds Payable	(1,795,000)	
OPWC Loans Payable	(141,124)	
Compensated Absences Payable	(137,416)	
		(2,340,296)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.		
Deferred Outflows - Pension	920,869	
Deferred Inflows - Pension	(11,222)	
Net Pension Liability	(3,372,396)	
		(2,462,749)
Net Position of Governmental Activities		\$15,586,247
See Accompanying Notes to the Basic Financial Statements		

City of Waterville
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2017

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$374,416	\$0	\$33,042	\$407,458
Municipal Income Taxes	2,624,965	874,988	0	3,499,953
Other Local Taxes	0	0	28,129	28,129
Payment in Lieu of Taxes	0	0	99,843	99,843
Special Assessments	0	6,858	0	6,858
Charges for Services	522,595	0	0	522,595
Fees, Licenses, and Permits	26,576	0	91,594	118,170
Fines and Forfeitures	8,155	0	2,718	10,873
Intergovernmental	295,850	0	279,954	575,804
Interest	7,221	8,465	1,333	17,019
Other	101,476	43,431	7,132	152,039
Total Revenues	3,961,254	933,742	543,745	5,438,741
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,192,330	68,226	37,465	1,298,021
Fire	628,824	122,462	0	751,286
Other	108,825	0	0	108,825
Leisure Time Activities	20,799	0	148,319	169,118
Community Environment	71,403	25,484	0	96,887
Basic Utility Services	268,916	0	0	268,916
Transportation	0	1,168,045	314,272	1,482,317
General Government	1,066,247	129,621	99,843	1,295,711
Debt Service:				
Principal Retirement	0	160,209	0	160,209
Current Refunding	0	100,208	0	100,208
Interest and Fiscal Charges	0	63,857	0	63,857
Total Expenditures	3,357,344	1,838,112	599,899	5,795,355
Excess of Revenues Over (Under) Expenditures	603,910	(904,370)	(56,154)	(356,614)
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	3,259	0	3,259
Bond Anticipation Notes Issued	0	260,000	0	260,000
Current Refunding	0	(260,000)	0	(260,000)
Transfers In	0	620,000	58,000	678,000
Transfers Out	(693,000)	0	0	(693,000)
Total Other Financing Sources (Uses)	(693,000)	623,259	58,000	(11,741)
Change in Fund Balance	(89,090)	(281,111)	1,846	(368,355)
Fund Balance Beginning of Year	1,646,372	1,312,752	486,570	3,445,694
Fund Balance End of Year	\$1,557,282	\$1,031,641	\$488,416	\$3,077,339

See Accompanying Notes to the Basic Financial Statements

City of Waterville
 Reconciliation of Statement of Revenues, Expenditures,
 and Change in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2017

Change in Fund Balance - Total Governmental Funds (\$368,355)

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

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

Capital Contributions	99,963	
Capital Outlay- Depreciable Capital Assets	1,128,944	
Depreciation	<u>(895,257)</u>	
		333,650

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the book value of the capital assets is removed from the capital asset account on the statement of net position and is offset against the proceeds from the sale of capital assets resulting in a gain on disposal of capital assets on the statement of activities.

Proceeds from the Sale of Capital Assets	(3,259)	
Gain on Disposal of Capital Assets	<u>3,259</u>	
		0

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

Delinquent Property Taxes	328	
Municipal Income Taxes	(187,956)	
Special Assessments	(3,982)	
Charges for Services	3,860	
Fees, Licenses, and Permits	(950)	
Intergovernmental	728,174	
Interest	<u>(1,028)</u>	
		538,446

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net position.

Bond Anticipation Notes Payable	360,208	
General Obligation Bonds Payable	140,000	
OPWC Loans Payable	<u>20,209</u>	
		520,417

Bond anticipation note proceeds are other financing sources in governmental funds but the issuance increases long-term liabilities on the statement of net position. (260,000)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. (132)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 25,118

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (513,662)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows. 241,144

Change in Net Position of Governmental Activities \$516,626

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$423,950	\$374,416	\$374,416	\$0
Municipal Income Taxes	2,490,939	2,583,140	2,579,372	(3,768)
Charges for Services	512,682	522,409	531,830	9,421
Fees, Licenses, and Permits	63,692	66,049	26,576	(39,473)
Fines and Forfeitures	12,729	13,200	8,353	(4,847)
Intergovernmental	303,614	314,850	296,726	(18,124)
Interest	13,500	14,000	11,589	(2,411)
Other	109,502	48,763	101,476	52,713
Total Revenues	3,930,608	3,936,827	3,930,338	(6,489)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,256,363	1,280,027	1,187,938	92,089
Fire	759,452	770,641	632,226	138,415
Other	100,200	118,385	109,245	9,140
Leisure Time Activities	21,150	21,150	20,799	351
Community Environment	92,050	133,448	78,943	54,505
Basic Utility Services	267,342	274,519	247,896	26,623
General Government	1,130,560	1,196,917	1,063,570	133,347
Total Expenditures	3,627,117	3,795,087	3,340,617	454,470
Excess of Revenues Over Expenditures	303,491	141,740	589,721	447,981
<u>Other Financing Uses</u>				
Transfers Out	(773,000)	(693,000)	(693,000)	0
Change in Fund Balance	(469,509)	(551,260)	(103,279)	447,981
Fund Balance Beginning of Year	1,501,440	1,501,440	1,501,440	0
Fund Balance End of Year	<u>\$1,031,931</u>	<u>\$950,180</u>	<u>\$1,398,161</u>	<u>\$447,981</u>

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Fund Net Position
Enterprise Funds
December 31, 2017

	Water	Sewer	Total Enterprise Funds
<u>Assets</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$602,043	\$993,287	\$1,595,330
Accounts Receivable	184,245	91,746	275,991
Accrued Interest Receivable	1,181	1,389	2,570
Prepaid Items	2,324	3,196	5,520
Materials and Supplies Inventory	21,193	3,316	24,509
Total Current Assets	810,986	1,092,934	1,903,920
<u>Non-Current Assets</u>			
Nondepreciable Capital Assets	101,250	19,443	120,693
Depreciable Capital Assets, Net	7,854,127	6,060,734	13,914,861
Total Non-Current Assets	7,955,377	6,080,177	14,035,554
Total Assets	8,766,363	7,173,111	15,939,474
<u>Deferred Outflows of Resources</u>			
Pension	93,533	95,705	189,238
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accrued Wages Payable	5,267	5,645	10,912
Accounts Payable	1,105	2,073	3,178
Due to Other Governments	92,831	40,319	133,150
Retainage Payable	3,540	0	3,540
Accrued Interest Payable	16,552	1,422	17,974
Notes Payable	1,017,700	67,000	1,084,700
General Obligation Bonds Payable	100,000	20,000	120,000
OPWC Loans Payable	19,792	23,446	43,238
OWDA Loans Payable	0	2,156	2,156
Due to Lucas County	6,742	136,222	142,964
Compensated Absences Payable	8,526	8,124	16,650
Total Current Liabilities	1,272,055	306,407	1,578,462
<u>Non-Current Liabilities</u>			
General Obligation Bonds Payable	2,710,000	315,000	3,025,000
OPWC Loans Payable	283,891	170,090	453,981
OWDA Loans Payable	0	31,039	31,039
Due to Lucas County	122,620	1,216,438	1,339,058
Compensated Absences Payable	7,300	2,575	9,875
Net Pension Liability	239,831	238,689	478,520
Total Non-Current Liabilities	3,363,642	1,973,831	5,337,473
Total Liabilities	4,635,697	2,280,238	6,915,935

City of Waterville
Statement of Fund Net Position
Enterprise Funds
December 31, 2017
(continued)

	Water	Sewer	Total Enterprise Funds
<u>Deferred Inflows of Resources</u>			
Pension	\$1,846	\$1,420	\$3,266
<u>Net Position</u>			
Net Investment in Capital Assets	3,820,454	5,451,446	9,271,900
Unrestricted (Deficit)	401,899	(464,288)	(62,389)
Total Net Position	\$4,222,353	\$4,987,158	\$9,209,511

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Revenues, Expenses,
and Change in Fund Net Position
Enterprise Funds
For the Year Ended December 31, 2017

	Water	Sewer	Total Enterprise Funds
<u>Operating Revenues</u>			
Charges for Services	\$1,669,537	\$831,997	\$2,501,534
Other	14,012	1,035	15,047
Total Operating Revenues	<u>1,683,549</u>	<u>833,032</u>	<u>2,516,581</u>
<u>Operating Expenses</u>			
Personal Services	244,630	262,594	507,224
Contractual Services	724,764	286,595	1,011,359
Materials and Supplies	135,741	30,456	166,197
Depreciation	240,140	238,536	478,676
Other	1,479	51	1,530
Total Operating Expenses	<u>1,346,754</u>	<u>818,232</u>	<u>2,164,986</u>
Operating Income	<u>336,795</u>	<u>14,800</u>	<u>351,595</u>
<u>Non-Operating Revenues (Expenses)</u>			
Loss on Disposal of Capital Assets	(3,988)	0	(3,988)
Interest Revenue	4,287	4,463	8,750
Interest Expense	(112,029)	(64,575)	(176,604)
Total Non-Operating Revenues (Expenses)	<u>(111,730)</u>	<u>(60,112)</u>	<u>(171,842)</u>
Income (Loss) before Contributions and Transfers	225,065	(45,312)	179,753
Capital Contributions	48,685	145,188	193,873
Transfers In	<u>0</u>	<u>15,000</u>	<u>15,000</u>
Change in Net Position	273,750	114,876	388,626
Net Position Beginning of Year	<u>3,948,603</u>	<u>4,872,282</u>	<u>8,820,885</u>
Net Position End of Year	<u><u>\$4,222,353</u></u>	<u><u>\$4,987,158</u></u>	<u><u>\$9,209,511</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2017

	Water	Sewer	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$1,640,673	\$819,946	\$2,460,619
Cash Received from Other Revenues	14,012	1,035	15,047
Cash Payments for Personal Services	(211,125)	(227,038)	(438,163)
Cash Payments for Contractual Services	(670,611)	(305,877)	(976,488)
Cash Payments to Vendors	(266,167)	(30,288)	(296,455)
Cash Payments for Other Expenses	(1,479)	(51)	(1,530)
Net Cash Provided by Operating Activities	<u>505,303</u>	<u>257,727</u>	<u>763,030</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Cash Received from Transfers In	0	15,000	15,000
Cash Payments for Advances Out	(250,000)	0	(250,000)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(250,000)</u>	<u>15,000</u>	<u>(235,000)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on Bond Anticipation Notes	(1,169,802)	(78,552)	(1,248,354)
Principal Paid on General Obligation Bonds	(90,000)	(25,000)	(115,000)
Principal Paid on OPWC Loans	(16,215)	(23,381)	(39,596)
Principal Paid on OWDA Loans	0	(2,098)	(2,098)
Principal Paid to Lucas County	(13,485)	(90,809)	(104,294)
Interest Paid on Bond Anticipation Notes	(14,626)	(977)	(15,603)
Interest Paid on General Obligation Bonds	(94,931)	(10,800)	(105,731)
Interest Paid on OPWC Loans	0	(694)	(694)
Interest Paid on OWDA Loans	0	(956)	(956)
Interest Paid to Lucas County	0	(52,560)	(52,560)
Bond Anticipation Notes Issued	1,017,700	67,000	1,084,700
OPWC Loans Issued	7,466	0	7,466
Acquisition of Capital Assets	(327,629)	0	(327,629)
Net Cash Used for Capital and Related Financing Activities	<u>(701,522)</u>	<u>(218,827)</u>	<u>(920,349)</u>
<u>Cash Flows from Investing Activities</u>			
Interest	4,668	4,210	8,878
Net Increase (Decrease) in Cash and Cash Equivalents	(441,551)	58,110	(383,441)
Cash and Cash Equivalents Beginning of Year	<u>1,043,594</u>	<u>935,177</u>	<u>1,978,771</u>
Cash and Cash Equivalents End of Year	<u>\$602,043</u>	<u>\$993,287</u>	<u>\$1,595,330</u>

City of Waterville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2017
(continued)

	Water	Sewer	Total Enterprise Funds
<u>Reconciliation of Operating Income to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Operating Income	\$336,795	\$14,800	\$351,595
<u>Adjustments to Reconcile Operating Income to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Depreciation	240,140	238,536	478,676
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(28,864)	(13,035)	(41,899)
(Increase) Decrease in Prepaid Items	(84)	63	(21)
Decrease in Materials and Supplies Inventory	8,864	180	9,044
Decrease in Special Assessments Receivable	0	984	984
Increase (Decrease) in Accrued Wages Payable	(346)	93	(253)
Decrease in Accounts Payable	(958)	(238)	(1,196)
Decrease in Contracts Payable	(46,665)	0	(46,665)
Increase (Decrease) in Due to Other Governments	54,147	(19,054)	35,093
Decrease in Retainage Payable	(91,551)	0	(91,551)
Decrease in Compensated Absences Payable	(320)	(477)	(797)
Increase in Net Pension Liability	5,371	5,345	10,716
Decrease in Deferred Outflows - Pension	32,289	33,670	65,959
Decrease in Deferred Inflows - Pension	(3,515)	(3,140)	(6,655)
Net Cash Provided by Operating Activities	<u>\$505,303</u>	<u>\$257,727</u>	<u>\$763,030</u>

Non-Cash Capital Transactions

At December 31, 2017, the Water and Sewer enterprise funds received a contribution of capital assets from developers, in the amount of \$48,685 and \$145,188, respectively.

At December 31, 2017, the Water enterprise fund had outstanding payables related to the acquisition of capital assets, in the amount of \$3,540.

See Accompanying Notes to the Basic Financial Statements

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

NOTE 1 - DESCRIPTION OF THE CITY OF WATERVILLE AND THE REPORTING ENTITY

A. The City

The City of Waterville (City) is a charter municipal corporation with the charter adopted by the electors on May 3, 1966. Waterville became a village in 1831 and was incorporated as a city on April 29, 2011. The City may exercise all powers of home rule granted under Article XVIII, Section 3, of the Ohio Constitution not in conflict with applicable general laws in Ohio.

The City operates under a council-administrator form of government. Legislative power is vested in a six member council and a Mayor, each elected to a four-year term. The Council is responsible for appointing a full-time Municipal Administrator.

The City of Waterville is divided into various departments and financial management and control systems. Services provided include police protection, a volunteer fire department, parks and recreation, street maintenance and repair, and water, sewer, and storm sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Municipal Administrator through administrative and managerial requirements and procedures.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Waterville consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units 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 City. There were no component units of the City of Waterville in 2017.

The City participates in an insurance pool, the Ohio Plan Risk Management, which is presented in Note 20 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waterville 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. Following are the more significant of the City's accounting policies.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. 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 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 governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

B. Fund Accounting

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds.

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

Various Improvements - The Various Improvements capital projects fund accounts for income tax receipts, note proceeds, and grant monies used for construction projects or to acquire capital assets.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net position, financial position, and cash flows.

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

Water Fund - The Water Fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - The Sewer Fund accounts for the provision of sanitary and storm sewer service to residential and commercial users within the City.

C. Measurement Focus

Government-Wide Financial Statements

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and change in fund balance reflects 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 financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses, and change in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means 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 thirty-one days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report 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 that time. For the City, deferred outflows of resources are reported on the government-wide and enterprise funds statement of net position for pension and explained in Note 13 to the basic financial statements.

In addition to liabilities, the statement of financial position may report 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 consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accrued interest, intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, special assessments, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide and enterprise funds statement of net position and explained in Note 13 to the basic financial statements.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds are required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations ordinance, both of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by City Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations ordinance 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 City Council during the year.

F. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

During 2017, the City’s investments included negotiable certificates of deposit and STAR Ohio. Investments are reported at fair value, which is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board (GASB) statement No. 79, “Certain External Investment Pools and Pool Participants”. The City measures the investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The net asset value per share is calculated on an amortized cost basis that provides a net asset value per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant are combined for this purpose.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2017 was \$7,221, which includes \$2,524 assigned from other City funds.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Prepaid Items

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

H. Inventory

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

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition value on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City reports all infrastructure, including that acquired prior to 1980.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20-40 years
Buildings and Improvements	35-100 years
Furniture, Fixtures, and Equipment	5-50 years
Vehicles	5-30 years
Streets	15-40 years
Water, Sewer, and Storm Sewer Lines	50 years

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Activity

Deferred inflows of resources and deferred outflows of resources from the change in proportionate share related to pension items are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts between governmental and business-type activities. These residual amounts are eliminated in the total column on the government-wide statement of net position.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable 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 City policies. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance 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 its use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes activities for maintenance and repair of State highways and various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fund Balance

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

Nonspendable - The nonspendable classification 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” includes items that are not expected to be converted to cash.

Restricted - The restricted classification includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinance).

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 purposes specified by the legislation.

Committed - The committed classification includes amounts that can be used only for the specific purposes determined by a formal action (ordinance) of City Council. The committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance 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 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. Assigned amounts represent intended uses established by City Council. The City Council has authorized the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council has also assigned amounts to cover a gap between estimated resources and appropriations in the 2018 budget.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water, sewer, and storm sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

P. Capital Contributions

Capital contributions arise from contributions from outside sources.

Q. Interfund Transactions

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

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

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

R. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

S. Estimates

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2017, the City has implemented Governmental Accounting Standard Board (GASB) Implementation Guide No. 2016-1. These changes were incorporated in the City's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 4 - COMPLIANCE

The Tax Equivalent capital projects fund had final appropriations in excess of estimated resources, in the amount of \$27. The Finance Director will review appropriations to ensure they are within available resources.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

Change in Fund Balance	
GAAP Basis	(\$89,090)
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2016, Received in Cash 2017	254,989
Accrued 2017, Not Yet Received in Cash	(290,278)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

Change in Fund Balance (continued)	
Expenditure Accruals:	
Accrued 2016, Paid in Cash 2017	(\$138,663)
Accrued 2017, Not Yet Paid in Cash	157,574
Cash Adjustments:	
Unrecorded Activity 2016	664
Unrecorded Activity 2017	3,709
Prepaid Items	52
Materials and Supplies Inventory	(2,236)
Budget Basis	<u><u>(\$103,279)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Interim monies may 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 National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent, be marked to market daily, and the term of the agreement must not exceed thirty days;
4. 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;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. 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.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,617,808 of the City's bank balance of \$3,117,808 was exposed to custodial credit risk because the deposits were uninsured and uncollateralized. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the next business day.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured or by participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

In April 2018, the City's financial institution participating in OPCS was approved for a reduced collateral floor of 50 percent. At the time the reduced floor became effective, \$793,602 of the City's bank balance of \$3,453,688 was exposed to custodial credit risk.

Investments

As of December 31, 2017, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>
Fair Value - Level Two Inputs		
Negotiable Certificate of Deposit	\$100,084	3/12/18
Negotiable Certificate of Deposit	199,910	3/27/18
Negotiable Certificate of Deposit	124,931	6/20/18
Negotiable Certificate of Deposit	200,508	11/27/18
Negotiable Certificate of Deposit	99,988	1/31/19
Negotiable Certificate of Deposit	100,122	8/5/19
Negotiable Certificate of Deposit	99,940	9/11/19
Negotiable Certificate of Deposit	119,924	2/4/20
Negotiable Certificate of Deposit	99,232	8/5/20
Negotiable Certificate of Deposit	99,537	8/31/20
Negotiable Certificate of Deposit	99,910	12/21/20
Negotiable Certificate of Deposit	199,976	2/8/21
Negotiable Certificate of Deposit	125,388	12/20/21
Negotiable Certificate of Deposit	99,706	12/19/22
Net Value per Share		
Star Ohio	6,552	52.1 days
Total Investments	<u>\$1,775,708</u>	

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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 above chart identifies the City's recurring fair value measurements as of December 31, 2017. 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).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the City.

The negotiable certificates of deposit are insured by the FDIC and/or SIPC. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The City places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of investments to the City's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Negotiable Certificates of Deposit	\$1,769,156	99.6%

NOTE 7 - RECEIVABLES

Receivables at December 31, 2017, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; property taxes; and special assessments. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Special assessments receivable, in the amount of \$9,905, will not be received within one year. At December 31, 2017, the amount of delinquent special assessments was \$1,106.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 7 - RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$28,107
Liquor Permits	100
Local Government	114,396
City of Maumee	325
Total General Fund	142,928
Various Improvements	
Ohio Department of Transportation	604,971
Ohio Public Works Commission	124,406
Total Various Improvements	729,377
Total Major Funds	872,305
Nonmajor Funds	
Street Maintenance	
Gasoline Tax	90,283
Motor Vehicle License Tax	20,342
Total Street Maintenance	110,625
State Highway	
Gasoline Tax	7,320
Motor Vehicle License Tax	1,650
Total State Highway	8,970
Permissive Tax	
Permissive Tax	6,833
Police Pension	
Homestead and Rollback	2,480
Enforcement and Education	
City of Maumee	208
Law Enforcement FOJ	
City of Maumee	117
Total Nonmajor Funds	129,233
Total Governmental Activities	\$1,001,538

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 75 percent (up to 1.5 percent of the 2 percent income tax total) of the tax 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 also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue was credited to the General Fund (1.5 percent) and to the Various Improvements capital projects fund (.5 percent) for 2017.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2017 represent the collection of 2016 taxes. Real property taxes received in 2017 were levied after October 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2017, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2017 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real 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.

The full tax rate for all City operations for the year ended December 31, 2017, was \$3.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2017 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$108,597,050
Commercial/Industrial	15,169,170
Public Utility Real	19,070
Public Utility Personal	2,951,100
Total	\$126,736,390

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$1,939,933	\$0	\$0	\$1,939,933
Total Nondepreciable Capital Assets	1,939,933	0	0	1,939,933
Depreciable Capital Assets				
Land Improvements	246,465	757,774	0	1,004,239
Buildings and Improvements	1,293,917	0	0	1,293,917
Furniture, Fixtures, and Equipment	903,173	158,441	0	1,061,614
Vehicles	2,320,876	68,226	(41,312)	2,347,790
Streets	28,497,987	244,466	0	28,742,453
Total Depreciable Capital Assets	33,262,418	1,228,907	(41,312)	34,450,013
Less Accumulated Depreciation for				
Land Improvements	(115,040)	(10,504)	0	(125,544)
Buildings and Improvements	(220,120)	(14,492)	0	(234,612)
Furniture, Fixtures, and Equipment	(608,767)	(34,402)	0	(643,169)
Vehicles	(1,171,390)	(87,744)	41,312	(1,217,822)
Streets	(17,970,310)	(748,115)	0	(18,718,425)
Total Accumulated Depreciation	(20,085,627)	(895,257)	41,312	(20,939,572)
Total Depreciable Capital Assets, Net	13,176,791	333,650	0	13,510,441
Governmental Activities Capital Assets, Net	\$15,116,724	\$333,650	\$0	\$15,450,374

Governmental activities accepted a contribution of capital assets from outside sources, with a fair value of \$99,963, during 2017.

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$33,643	\$0	\$0	\$33,643
Construction in Progress	2,308,497	331,169	(2,552,616)	87,050
Total Nondepreciable Capital Assets	2,342,140	331,169	(2,552,616)	120,693
Depreciable Capital Assets				
Buildings and Improvements	148,393	0	0	148,393
Furniture, Fixtures, and Equipment	2,015,217	0	0	2,015,217
Vehicles	282,771	0	(19,948)	262,823
Water, Sewer, and Storm Sewer Lines	19,331,915	2,746,489	0	22,078,404
Total Depreciable Capital Assets	21,778,296	2,746,489	(19,948)	24,504,837

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
Business-Type Activities (continued):				
Less Accumulated Depreciation for				
Buildings and Improvements	(\$68,884)	(\$2,403)	\$0	(\$71,287)
Furniture, Fixtures, and Equipment	(1,259,183)	(85,453)	0	(1,344,636)
Vehicles	(218,085)	(4,171)	15,960	(206,296)
Water, Sewer, and Storm Sewer Lines	(8,581,108)	(386,649)	0	(8,967,757)
Total Accumulated Depreciation	<u>(10,127,260)</u>	<u>(478,676)</u>	<u>15,960</u>	<u>(10,589,976)</u>
Total Depreciable Capital Assets, Net	<u>11,651,036</u>	<u>2,267,813</u>	<u>(3,988)</u>	<u>13,914,861</u>
Business-Type Activities Capital Assets, Net	<u>\$13,993,176</u>	<u>\$2,598,982</u>	<u>(\$2,556,604)</u>	<u>\$14,035,554</u>

Business-type activities accepted a contribution of capital assets from outside sources, with a fair value of \$193,873, during 2017.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$8,711
Security of Persons and Property - Fire	73,502
Leisure Time Activities	19,990
Transportation	782,691
General Government	10,363
Total Depreciation Expense - Governmental Activities	<u><u>\$895,257</u></u>

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2017, the City contracted with the Ohio Plan Risk Management, an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$10,844,483	\$1,000
Special Property	1,170,811	1,000

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 11 - RISK MANAGEMENT (continued)

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability		
Occurrence	\$5,000,000	\$0
Aggregate	7,000,000	0
Employer's Liability		
Occurrence	5,000,000	0
Aggregate	5,000,000	0
Employee Benefits		
Occurrence	5,000,000	0
Aggregate	7,000,000	0
Public Officials Liability		
Occurrence	5,000,000	2,500
Aggregate	7,000,000	2,500
Law Enforcement Liability		
Occurrence	5,000,000	2,500
Aggregate	7,000,000	2,500
Auto Liability	5,000,000	500

There has been no significant reduction in insurance coverage from 2016 and no insurance settlement has exceeded insurance coverage during the last three years.

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

NOTE 12 - CONTRACTUAL COMMITMENTS

At December 31, 2017, the City had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Mannik and Smith	Anthony Wayne Trail	\$25,377
Geddis Paving and Exc., Inc.	Anthony Wayne Trail	14,115

NOTE 13 - 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.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

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

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

GASB Statement No. 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 the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty 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 as an intergovernmental payable on both the accrual and modified accrual basis 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 that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. 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 years	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 years	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 years
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years

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.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

When a benefit recipient has received benefits for twelve 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	Public Safety	Law Enforcement
2017 Statutory Maximum Contribution Rates			
Employer	14.0%	18.1%	18.1%
Employee	10.0 %	*	**
2017 Actual Contribution Rates			
Employer			
Pension	13.0 %	17.1 %	17.1 %
Postemployment Health Care Benefits	1.0	1.0	1.0
Total Employer	14.0 %	18.1 %	18.1 %
Total Employee	10.0 %	12.0 %	13.0 %

* This rate is determined by OPERS' Board and has no maximum rate established by the ORC.

** This rate is also determined by OPERS' Board but is limited by the ORC to not more than 2 percent greater than the public safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$102,935 for 2017. Of this amount, \$13,154 is reported as an intergovernmental payable.

Plan Description - Ohio Police and Fire Pension Fund (OPF)

Plan Description - Full-time police and firefighters participate in 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, required supplementary information, and detailed information about OPF's fiduciary net position that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

Upon attaining a qualifying age with sufficient years of service, an OPF member 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.

For members hired after July 1, 2013, the minimum retirement age is fifty-two for normal service retirement with at least twenty-five years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is forty-eight for normal service retirement with at least twenty-five 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 twenty years of service credit, 2 percent for each of the next five years of service credit, and 1.5 percent for each year of service credit in excess of twenty-five years. The maximum pension of 72 percent of the allowable average annual salary is paid after thirty-three years of service credit. (See OPF CAFR referenced above for additional information including requirements for deferred retirement option plan provisions and reduced and unreduced benefits.)

Under normal service retirement, retired members who are at least fifty-five years old and have been receiving OPF benefits for at least one year may be eligible for a cost of living allowance adjustment. The age fifty-five 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 fifteen years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3 percent or the percentage increase in the Consumer Price Index, if any, over the twelve month period ending on September 30 of the immediately preceding year rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 2017 Actual Contribution Rates		
Employer		
Pension	19.00 %	23.50 %
Postemployment Health Care Benefits	.50	.50
Total Employer	19.50 %	24.00 %
Total Employee	12.25 %	12.25 %

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution was \$172,754 for 2017. Of this amount, \$20,824 is reported as an intergovernmental payable.

Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	OPERS	OPF	Total
Proportion of the Net Pension Liability			
Current Measurement Date	0.00627900%	0.03828700%	
Prior Measurement Date	0.00615500%	0.03637100%	
Change in Proportionate Share	0.00012400%	0.00191600%	
Proportionate Share of the Net Pension Liability	\$1,425,856	\$2,425,060	\$3,850,916
Pension Expense	\$308,650	\$309,577	\$618,227

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

	OPERS	OPF	Total
Deferred Outflows of Resources			
Difference Between Expected and Actual Experience	\$1,933	\$686	\$2,619
Changes of Assumptions	226,158	0	226,158
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	212,343	235,827	448,170
Changes in Proportion and Differences Between City Contributions and the Proportionate Share of Contributions	11,945	145,107	157,052
City Contributions Subsequent to the Measurement Date	102,935	172,754	275,689
Total Deferred Outflows of Resources	\$555,314	\$554,374	\$1,109,688

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

	OPERS	OPF	Total
Deferred Inflows of Resources			
Difference Between Expected and Actual Experience	\$8,486	\$5,583	\$14,069

\$275,689 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	OPERS	OPF	Total
Year Ending December 31,			
2018	\$184,431	\$120,437	\$304,868
2019	189,769	120,437	310,206
2020	75,918	99,066	174,984
2021	(6,225)	14,873	8,648
2022	0	19,513	19,513
Thereafter	0	1,711	1,711
Total	\$443,893	\$376,037	\$819,930

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 was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with GASB Statement No. 67. In 2016, the OPERS actuarial consultants conducted an experience study for the period 2011 through 2015 comparing assumptions to actual results. The experience study incorporates both a historical review and forward looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions with the most notable being a reduction in the actuarially assumed rate of return from 8 percent to 7.5 percent for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuations, reflecting experience study results, prepared as of December 31, 2016, compared to December 31, 2015, are presented below.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age

For 2016, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table. For males, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base of 2006 and then established the base year as 2015. For females, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality Table adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 mortality improvements scale to the above described tables.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected twenty 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, 2015. The prior 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.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

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

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

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 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 contractually required rates as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit 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 7.5 percent as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate Share of the Net Pension Liability	\$2,178,311	\$1,425,856	\$798,814

Actuarial Assumptions - OPF

OPF's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled forward using generally accepted actuarial procedures. The total pension liability is determined by 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.

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

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	entry age normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent plus productivity increase rate of .5 percent
Cost of Living Adjustments	3 percent simple; 2.6 percent simple for increases based on lesser of the increase in CPI and 3 percent

Mortality rates are based on the RP-2000 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.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building block approach and assumes a time horizon as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return 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, 2016, are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equities	16.00	5.21
Non-U.S. Equities	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: assumptions are geometric

* levered 2x

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 the 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 earnings 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.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's Proportionate Share of the Net Pension Liability	\$3,229,893	\$2,425,060	\$1,742,954

Changes Between Measurement Date and Report Date

In October 2017, the OPF Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing multiple-employer defined benefit postemployment health care trust which funds multiple health care plans including medical coverage, prescription drug coverage, and deposits to a health reimbursement arrangement to qualifying benefit recipients of both the traditional and combined pension plans. This trust is also used to fund health care for member-directed plan participants in the form of a retiree medical account (RMA). At retirement or refund, member-directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined pension 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 postemployment benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 45. See OPERS' CAFR referenced below for additional information.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

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 which 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.

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 2017, state and local employers contributed 14 percent of earnable salary and public safety and law enforcement employers contributed 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund the health care plans. The portion of the employer contribution allocated to health care for members of both the traditional and combined plans was 1 percent for 2017. As recommended by OPERS' actuary, the portion of the employer contribution allocated to health care beginning January 1, 2018, decreased to 0 percent for both plans.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. The employer contribution as a percentage of covered payroll deposited into the RMA for participants of the member-directed plan was 4 percent for 2017.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing multiple-employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$7,918, \$16,235, and \$15,322, respectively. For 2017, 87 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

B. Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care 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 postemployment benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 45.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

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 writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the OPF website at www.op-f.org.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as a percentage of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. 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 premium 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 contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution 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 contribution to OPF for the years ended December 31, 2017, 2016, and 2015, was \$177,143, \$157,464, and \$160,002, respectively, of which \$4,389, \$3,904, and \$3,992 was allocated to the health care plan. For 2017, 88 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 2016 and 2015.

NOTE 15 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

City employees earn vacation at varying rates depending on length of service. Current policy credits vacation leave each biweekly pay period. Employees are paid for 100 percent of accumulated unused vacation leave upon termination.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 15 - COMPENSATED ABSENCES (continued)

Upon retirement, full-time employees within in the sergeant police unit with ten or more years of service, who were hired before August 8, 1983, are entitled to receive all of their accrued but unused sick leave up to a maximum of nine hundred sixty hours. All other full-time employees with ten or more years of service are entitled to receive one-fourth of the value of their unused sick leave up to a maximum of two hundred forty hours.

NOTE 16 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2017, were as follows:

	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
<u>Governmental Activities</u>					
General Obligation Bond					
Anticipation Notes					
2016 Various Purpose	1.25%	\$151,438	\$0	\$151,438	\$0
2017 Various Purpose	2.0	0	180,300	0	180,300
Total Bond Anticipation Notes		<u>\$151,438</u>	<u>\$180,300</u>	<u>\$151,438</u>	<u>\$180,300</u>
<u>Business-Type Activities</u>					
General Obligation Bond					
Anticipation Notes					
Enterprise Funds					
2016 Water Improvements	1.25%	\$1,169,802	\$0	\$1,169,802	\$0
2017 Water Improvements	2.0	0	1,017,700	0	1,017,700
2016 Wastewater Improvements	1.25	78,552	0	78,552	0
2017 Wastewater Improvements	2.0	0	67,000	0	67,000
Total Bond Anticipation Notes		<u>\$1,248,354</u>	<u>\$1,084,700</u>	<u>\$1,248,354</u>	<u>\$1,084,700</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds. All of the City's bond anticipation notes are backed by the full faith and credit of the City of Waterville.

The bond anticipation notes, in the amount of \$180,300, were issued on July 25, 2017, to retire notes previously issued in 2016 for various purposes. The notes have an interest rate of 2 percent and mature on July 25, 2018. The notes will be paid from the Various Improvements capital projects fund. As of December 31, 2017, all proceeds were spent.

The bond anticipation notes in the Water enterprise fund, in the amount of \$1,017,700, were issued on July 25, 2017, to partially retire notes previously issued to improve water lines. The notes have an interest rate of 2 percent and mature on July 25, 2018. As of December 31, 2017, all proceeds were spent.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 16 - NOTES PAYABLE (continued)

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$67,000, were issued on July 25, 2017, to partially retire notes previously issued to improve sanitary sewer lines and storm sewer lines. The notes have an interest rate of 2 percent and mature on July 25, 2018. As of December 31, 2017, all proceeds were spent.

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2017, was as follows:

	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
<u>Governmental Activities</u>						
Bond Anticipation Notes						
2016 Various Purpose	1.25%	\$360,208	\$0	\$360,208	\$0	\$0
2017 Various Purpose	2.0	0	260,000	0	260,000	260,000
Total Bond Anticipation Notes		360,208	260,000	360,208	260,000	260,000
General Obligation Bonds						
2012 Various Purpose Refunding (Original Amount \$2,545,000)	2.0	1,935,000	0	140,000	1,795,000	145,000
OPWC Loans						
1999 OPWC Loans Payable (Original Amount \$157,946)	0	19,744	0	7,897	11,847	7,898
2008 OPWC Loans Payable (Original Amount \$246,242)	0	141,589	0	12,312	129,277	12,312
Total OPWC Loans		161,333	0	20,209	141,124	20,210
Other Long-Term Obligations						
Net Pension Liability						
Ohio Public Employees Retirement System		712,384	234,952	0	947,336	0
Ohio Police and Fire Pension		2,339,771	85,289	0	2,425,060	0
Total Net Pension Liability		3,052,155	320,241	0	3,372,396	0
Compensated Absences Payable		162,534	1,479	26,597	137,416	102,334
Total Governmental Activities		\$5,671,230	\$581,720	\$547,014	\$5,705,936	\$527,544

	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
<u>Business-Type Activities</u>						
General Obligation Bonds						
2015 Various Purpose (Original Amount \$3,300,000)	3 - 3.875%	\$3,260,000	\$0	\$115,000	\$3,145,000	\$120,000
OPWC Loans						
1999 OPWC Loans Payable (Original Amount \$128,489)	0	16,061	0	6,424	9,637	6,425
2004 OPWC Loans Payable (Original Amount \$57,585)	0	23,034	0	2,879	20,155	2,879

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
2006 OPWC Loans Payable (Original Amount \$129,202)	.01	\$71,037	\$0	\$6,450	\$64,587	\$6,514
2009 OPWC Loans Payable (Original Amount \$127,307)	0	79,570	0	6,365	73,205	6,365
2010 OPWC Loans Payable (Original Amount \$152,550)	0	106,785	0	7,628	99,157	7,628
2011 OPWC Loans Payable (Original Amount \$125,456)	0	97,228	0	6,272	90,956	6,272
2015 OPWC Loans Payable (Original Amount \$143,100)	0	143,100	0	3,578	139,522	7,155
Total OPWC Loans		<u>536,815</u>	<u>0</u>	<u>39,596</u>	<u>497,219</u>	<u>43,238</u>
OWDA Loans						
2010 OWDA Loans Payable (Original Amount \$172,380)	2.75	35,293	0	2,098	33,195	2,156
Other Long-Term Obligations						
Net Pension Liability						
Ohio Public Employees Retirement System		353,740	124,780	0	478,520	0
Due to Lucas County		1,586,316	0	104,294	1,482,022	142,964
Compensated Absences Payable		27,322	0	797	26,525	16,650
Total Other Long-Term Obligations		<u>1,967,378</u>	<u>124,780</u>	<u>105,091</u>	<u>1,987,067</u>	<u>159,614</u>
Total Business-Type Activities		<u>\$5,799,486</u>	<u>\$124,780</u>	<u>\$261,785</u>	<u>\$5,662,481</u>	<u>\$325,008</u>

Bond Anticipation Notes

On July 25, 2017, the City issued bond anticipation notes, in the amount of \$260,000 to partially retire notes previously issued in 2016 for various purposes. The notes have an interest rate of 2 percent and mature on July 25, 2018. The notes will be paid from the Various Improvements capital projects fund.

General Obligation Bonds

On August 2, 2012, the City issued unvoted general obligation bonds, in the amount of \$2,545,000; \$1,040,000 to retire bond anticipation notes previously issued and \$1,505,000 to advance refund 2002 various purpose bonds. The refunding bond issue includes serial and term bonds. The bonds were issued for a twenty-three year period, with final maturity in 2035. The bonds are being retired through the Various Improvements capital projects fund.

At December 31, 2017, \$1,010,000 of the refunded bonds was still outstanding.

The bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2019	\$140,000

The remaining principal, in the amount of \$145,000, will be paid at stated maturity on December 1, 2020.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2021	\$145,000

The remaining principal, in the amount of \$160,000, will be paid at stated maturity on December 1, 2022.

The bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2023	\$165,000

The remaining principal, in the amount of \$170,000, will be paid at stated maturity on December 1, 2024.

The bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2025	\$170,000

The remaining principal, in the amount of \$180,000, will be paid at stated maturity on December 1, 2026.

The bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2027	\$55,000
2028	55,000
2029	55,000
2030	60,000

The remaining principal, in the amount of \$60,000, will be paid at stated maturity on December 1, 2031.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on December 1, 2035, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2032	\$15,000
2033	15,000
2034	15,000

The remaining principal, in the amount of \$15,000, will be paid at stated maturity on December 1, 2035.

The serial bonds maturing on or after December 1, 2022, are subject to optional redemption prior to maturity, either in whole or in part, in inverse order of maturity, in integral multiples of \$5,000, on any date on or after December 31, 2022, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

On July 28, 2015, the City issued unvoted general obligation bonds, in the amount of \$3,300,000; \$820,000 to retire bond anticipation notes previously issued and \$2,480,000 to construct a waterline to connect to the City of Bowling Green. The bond issue includes serial and term bonds. The bonds were issued for a twenty-six year period, with final maturity in 2041. The bonds are being retired through the Water and Sewer enterprise funds.

The bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2021	\$125,000

The remaining principal, in the amount of \$125,000, will be paid at stated maturity on December 1, 2022.

The bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2023	\$125,000

The remaining principal, in the amount of \$130,000, will be paid at stated maturity on December 1, 2024.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2025	\$130,000

The remaining principal, in the amount of \$140,000, will be paid at stated maturity on December 1, 2026.

The bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2027	\$145,000

The remaining principal, in the amount of \$145,000, will be paid at stated maturity on December 1, 2028.

The bonds maturing on December 1, 2030, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2029	\$150,000

The remaining principal, in the amount of \$155,000, will be paid at stated maturity on December 1, 2030.

The bonds maturing on December 1, 2032, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2031	\$155,000

The remaining principal, in the amount of \$160,000, will be paid at stated maturity on December 1, 2032.

The bonds maturing on December 1, 2035, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2033	\$105,000
2034	110,000

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The remaining principal, in the amount of \$115,000, will be paid at stated maturity on December 1, 2035.

The bonds maturing on December 1, 2038, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2036	\$120,000
2037	120,000

The remaining principal, in the amount of \$125,000, will be paid at stated maturity on December 1, 2038.

The bonds maturing on December 1, 2041, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2039	\$130,000
2040	135,000

The remaining principal, in the amount of \$140,000, will be paid at stated maturity on December 1, 2041.

The serial bonds maturing on or after December 1, 2020, are subject to optional redemption prior to maturity, either in whole or in part, in inverse order of maturity, in integral multiples of \$5,000, on any date on or after June 1, 2020, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

OPWC Loans Payable

The City has entered into loan agreements with the Ohio Public Works Commission for various street related and water and sewer related projects. With the exception of Dutch Road lift station, the loans are interest free. The loans will be paid from resources of the Various Improvements capital projects fund and the Water and Sewer enterprise funds.

OWDA Loans Payable

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water line and a sanitary sewer project. The loans will be paid from resources of the Water and Sewer enterprise funds.

The OPWC and OWDA loans for water and sewer projects are to be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans are \$500,499 and \$39,706, respectively. Principal and interest paid for the current year and net revenues were \$16,215 and \$576,935 for the Water enterprise fund and \$27,129 and \$253,336 for the Sewer enterprise fund.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Net Pension Liability

There is no repayment schedule for the net pension liability; however, employer pension contributions are made from the General Fund, Street, Maintenance special revenue fund, and Water and Sewer enterprise funds. For additional information related to the net pension liability, see Note 13 to the basic financial statements.

Due to Lucas County

In 1973, the City entered into an agreement with the Lucas County Commissioners to provide for the use of the Maumee River Wastewater Treatment Plant with the City paying a portion of the construction cost to Lucas County over a 40 year period. In 1996, the plant was expanded and the City agreed to pay a portion of expansion costs based on the City's quarterly consumption rate. In 2007, the plant again expanded. The City agreed to pay 13.33 percent of these improvement costs to Lucas County over a twenty year period. In 2010, the plant was once again expanded and the City agreed to pay a portion of the expansion costs based on the City's quarterly consumption rate.

In 2011, the City entered into an agreement with Lucas County to pay for their portion of the North River Road water line.

Compensated Absences

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, the Street Maintenance special revenue fund, and the Water and Sewer enterprise funds.

The City's legal debt margin was \$10,930,897 at December 31, 2017.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2017, were as follows:

Year	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2018	\$145,000	\$53,887	\$20,210
2019	140,000	50,988	16,261
2020	145,000	47,487	12,312
2021	145,000	43,863	12,312
2022	160,000	39,512	12,312
2023-2027	740,000	121,823	61,561
2028-2032	275,000	37,912	6,156
2033-2035	45,000	3,600	0
Total	<u>\$1,795,000</u>	<u>\$399,072</u>	<u>\$141,124</u>

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017, from the business-type activities were as follows:

Year	General Obligation Bonds	
	Principal	Interest
2018	\$120,000	\$102,281
2019	120,000	98,681
2020	120,000	95,081
2021	125,000	91,481
2022	125,000	87,731
2023-2027	670,000	381,205
2028-2032	765,000	274,555
2033-2037	570,000	165,860
2038-2041	530,000	52,157
Total	\$3,145,000	\$1,349,032

Year	OPWC Loans		OWDA Loans		Due to Lucas County
	Principal	Interest	Principal	Interest	Principal
2018	\$43,238	\$630	\$2,156	\$898	\$142,964
2019	40,091	564	2,216	838	105,666
2020	36,944	499	2,277	777	108,935
2021	37,011	432	2,340	714	112,330
2022	37,078	365	2,405	649	115,857
2023-2027	174,217	790	13,063	2,210	637,188
2028-2032	96,443	0	8,738	425	259,082
2033-2037	32,197	0	0	0	0
Total	\$497,219	\$3,280	\$33,195	\$6,511	\$1,482,022

NOTE 18 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 18 - FUND BALANCE (continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Various Improvements	Other Governmental	Total Governmental Funds
Nonspendable for:				
Prepaid Items	\$18,684	\$0	\$4,939	\$23,623
Materials and Supplies				
Inventory	11,442	0	24,191	35,633
Total Nonspendable	<u>30,126</u>	<u>0</u>	<u>29,130</u>	<u>59,256</u>
Restricted for:				
Permanent Improvements	0	1,031,641	0	1,031,641
Police Department Operations	0	0	34,761	34,761
Street Construction and Maintenance	0	0	331,531	331,531
Total Restricted	<u>0</u>	<u>1,031,641</u>	<u>366,292</u>	<u>1,397,933</u>
Committed for:				
Parks and Green Space Improvement	0	0	92,994	92,994
Future Severance Payments	32,697	0	0	32,697
Total Committed	<u>32,697</u>	<u>0</u>	<u>92,994</u>	<u>125,691</u>
Assigned for				
Projected Budget Shortage	50,460	0	0	50,460
Unassigned	1,443,999	0	0	1,443,999
Total Fund Balance	<u>\$1,557,282</u>	<u>\$1,031,641</u>	<u>\$488,416</u>	<u>\$3,077,339</u>

NOTE 19 - INTERFUND TRANSFERS

During 2017, the General Fund made transfers to the Various Improvements capital projects fund and the Sewer enterprise fund, in the amount of \$620,000 and \$15,000, respectively, as debt payments became due. The General Fund also made transfers to other governmental funds, in the amount of \$58,000, to subsidize activities of the various funds.

NOTE 20 - INSURANCE POOL

The City participates in the Ohio Plan Risk Management (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The plan's business and affairs are conducted by an eleven member board consisting of public officials selected from the membership. Financial information can be obtained from Ohio Plan Risk Management, 420 Madison Avenue, Toledo, Ohio 43204.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017
(continued)

NOTE 21 - CONTINGENT LIABILITIES

A. Litigation

The City of Waterville is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City management is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

B. Federal and State Grants

For the period January 1, 2017, to December 31, 2017, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

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City of Waterville
 Required Supplementary Information
 Schedule of the City's Proportionate Share of the Net Pension Liability
 Ohio Public Employees Retirement System - Traditional
 Last Four Years (1)

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.00627900%	0.00615500%	0.00612200%	0.00612200%
City's Proportionate Share of the Net Pension Liability	\$1,425,856	\$1,066,124	\$738,382	\$721,704
City's Covered Payroll	\$811,758	\$766,114	\$750,617	\$887,666
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	175.65%	139.16%	98.37%	81.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.

Amounts presented as of the City's measurement date which is the prior year end.

City of Waterville
 Required Supplementary Information
 Schedule of the City's Proportionate Share of the Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Four Years (1)

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.03828700%	0.03637100%	0.03462640%	0.03828700%
City's Proportionate Share of the Net Pension Liability	\$2,425,060	\$2,339,771	\$1,793,792	\$1,686,414
City's Covered Payroll	\$780,794	\$798,325	\$749,103	\$758,514
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	310.59%	293.09%	239.46%	222.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available.

Amounts presented as of the City's measurement date which is the prior year end.

City of Waterville
 Required Supplementary Information
 Schedule of the City's Contributions
 Ohio Public Employees Retirement System - Traditional Plan
 Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$102,935	\$97,411	\$91,934	\$90,074	\$115,397
Contributions in Relation to the Contractually Required Contribution	<u>(102,935)</u>	<u>(97,411)</u>	<u>(91,934)</u>	<u>(90,074)</u>	<u>(115,397)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$791,808	\$811,758	\$766,114	\$750,617	\$887,666
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

City of Waterville
Required Supplementary Information
Schedule of the City's Contributions
Ohio Police and Fire Pension Fund
Last Nine Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$172,754	\$153,560	\$156,010	\$144,909
Contributions in Relation to the Contractually Required Contribution	<u>(172,754)</u>	<u>(153,560)</u>	<u>(156,010)</u>	<u>(144,909)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$877,699	\$780,794	\$798,325	\$749,103
Contributions as a Percentage of Covered Payroll	19.68%	19.67%	19.54%	19.34%

(1) Information prior to 2009 is not available.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$123,839	\$92,891	\$96,997	\$92,560	\$104,970
<u>(123,839)</u>	<u>(92,891)</u>	<u>(96,997)</u>	<u>(92,560)</u>	<u>(104,970)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$758,514	\$707,045	\$739,206	\$705,020	\$800,385
16.33%	13.14%	13.12%	13.13%	13.11%

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

Changes in Assumptions - OPERS

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below.

	<u>December 31, 2017</u>	<u>December 31, 2016 and Prior</u>
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA: Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant Mortality Table. For males, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base of 2006 and then established the base year as 2015. For females, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality Table adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 mortality improvements scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected twenty 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.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by *Government Auditing Standards*

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566

To the Members of 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 Waterville, Lucas County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
June 22, 2018



Dave Yost • Auditor of State

CITY OF WATERVILLE

LUCAS 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
AUGUST 9, 2018