



Dave Yost • Auditor of State

**CITY OF WAUSEON
FULTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	22
Statement of Net Position – Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds.....	26
Notes to the Basic Financial Statements	28
Required Supplementary Information:	
Schedule of City's Proportionate Share of the Net Pension Liability - Last Two Years.....	65
Schedule of City Contributions - Last Three Years.....	66
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	67
Schedule of Findings.....	69

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Wauseon
Fulton County
230 Clinton Street
Wauseon, Ohio 43567-2104

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 Wauseon, Fulton County, Ohio (the City), as of and for the year ended December 31, 2015, 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 Wauseon, Fulton County, Ohio, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows

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thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 20, 2016

CITY OF WAUSEON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2015

Unaudited

The discussion and analysis of the City of Wauseon's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2015 are as follows:

- ❑ In total, net position increased \$968,672. Net position of governmental activities increased \$553,024, which represents a 4% increase from 2014. Net position of business-type activities increased \$415,648 or 3% from 2014.
- ❑ General revenues accounted for \$4,592,948 in revenue or 50% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,502,321, 50% of total revenues of \$9,095,269.
- ❑ The City had \$5,385,417 in expenses related to governmental activities; only \$1,351,534 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,586,907 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$4,317,878 in revenues and \$4,248,921 in expenditures. The general fund's fund balance increased from \$934,904 to \$1,003,472.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF WAUSEON, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2015*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, liabilities, and deferred outflows/inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including security of persons and property, basic utility services, leisure time activities, community environment, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water and wastewater services are reported as business-type activities.

Fund Financial Statements

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole.

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

CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2015**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the Water and Wastewater funds, both of which are considered major funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net position for 2015 compared to 2014.

	Governmental Activities		Business-type Activities		Total	
	Restated		Restated		2015	2014
	2015	2014	2015	2014		
Current and Other Assets	\$7,474,945	\$6,819,470	\$5,507,039	\$5,536,755	\$12,981,984	\$12,356,225
Capital Assets, Net	12,839,699	12,579,305	15,403,683	14,992,348	28,243,382	27,571,653
Total Assets	<u>20,314,644</u>	<u>19,398,775</u>	<u>20,910,722</u>	<u>20,529,103</u>	<u>41,225,366</u>	<u>39,927,878</u>
Deferred Outflows of Resources	461,781	271,856	130,206	91,381	591,987	363,237
Net Pension Liability	2,832,429	2,700,532	746,944	731,749	3,579,373	3,432,281
Long-term Liabilities	2,736,304	2,820,497	4,050,354	4,318,883	6,786,658	7,139,380
Other Liabilities	450,770	226,341	345,278	100,301	796,048	326,642
Total Liabilities	<u>6,019,503</u>	<u>5,747,370</u>	<u>5,142,576</u>	<u>5,150,933</u>	<u>11,162,079</u>	<u>10,898,303</u>
Deferred Inflows of Resources	495,948	215,311	13,153	0	509,101	215,311
Net Position						
Net Investment in Capital Assets	10,504,699	10,114,305	11,409,752	10,761,233	21,914,451	20,875,538
Restricted	2,866,037	2,633,378	0	0	2,866,037	2,633,378
Unrestricted	890,238	960,267	4,475,447	4,708,318	5,365,685	5,668,585
Total Net Position	<u>\$14,260,974</u>	<u>\$13,707,950</u>	<u>\$15,885,199</u>	<u>\$15,469,551</u>	<u>\$30,146,173</u>	<u>\$29,177,501</u>

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

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

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

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

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

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

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014. The net pension liability reduced beginning of year net position by \$2,428,676 in governmental activities and \$640,368 in business-type activities.

CITY OF WAUSEON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2015

Unaudited

Change in Net Position – The following table shows the change in net position for 2015 compared to 2014:

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for Services and Sales	\$762,575	\$569,682	\$3,150,787	\$3,114,555	\$3,913,362	\$3,684,237
Operating Grants and Contributions	430,017	442,614	0	0	430,017	442,614
Capital Grants and Contributions	158,942	6,371	0	10,038	158,942	16,409
Total Program Revenues	<u>1,351,534</u>	<u>1,018,667</u>	<u>3,150,787</u>	<u>3,124,593</u>	<u>4,502,321</u>	<u>4,143,260</u>
General revenues:						
Property Taxes	223,441	219,127	0	0	223,441	219,127
Income Taxes	3,943,548	3,621,607	0	0	3,943,548	3,621,607
Intergovernmental Revenues, Unrestricted	209,293	188,316	0	0	209,293	188,316
Investment Earnings	22,086	10,124	6,041	11,534	28,127	21,658
Miscellaneous	188,539	345,961	0	0	188,539	345,961
Total General Revenues	<u>4,586,907</u>	<u>4,385,135</u>	<u>6,041</u>	<u>11,534</u>	<u>4,592,948</u>	<u>4,396,669</u>
Total Revenues	<u>5,938,441</u>	<u>5,403,802</u>	<u>3,156,828</u>	<u>3,136,127</u>	<u>9,095,269</u>	<u>8,539,929</u>
Program Expenses						
Security of Persons and Property	2,654,300	2,548,681	0	0	2,654,300	2,548,681
Basic Utility Services	98,967	79,391	0	0	98,967	79,391
Leisure Time Activities	574,149	556,299	0	0	574,149	556,299
Community Environment	282,524	328,856	0	0	282,524	328,856
Transportation	906,745	898,259	0	0	906,745	898,259
General Government	779,667	728,511	0	0	779,667	728,511
Interest and Fiscal Charges	89,065	91,666	0	0	89,065	91,666
Water	0	0	1,330,823	1,533,294	1,330,823	1,533,294
Wastewater	0	0	1,410,357	1,376,839	1,410,357	1,376,839
Total Expenses	<u>5,385,417</u>	<u>5,231,663</u>	<u>2,741,180</u>	<u>2,910,133</u>	<u>8,126,597</u>	<u>8,141,796</u>
Total Change in Net Position	553,024	172,139	415,648	225,994	968,672	398,133
Beginning Net Position - Restated	<u>13,707,950</u>	NA	<u>15,469,551</u>	NA	<u>29,177,501</u>	NA
Ending Net Position - Restated	<u>\$14,260,974</u>	<u>\$13,707,950</u>	<u>\$15,885,199</u>	<u>\$15,469,551</u>	<u>\$30,146,173</u>	<u>\$29,177,501</u>

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$271,856 for Governmental Activities and \$91,381 for Business-type Activities computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$289,453 for Governmental Activities and \$79,783 for Business-type Activities.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-type Activities
Total 2015 program expenses under GASB 68	\$5,385,417	\$2,741,180
Pension expense under GASB 68	(289,453)	(79,783)
2015 contractually required contribution	328,973	90,260
Adjusted 2015 program expenses	5,424,937	2,751,657
Total 2014 program expenses under GASB 27	5,231,663	2,910,133
Change in program expenses not related to pension	\$193,274	(\$158,476)

Governmental Activities

Net position of the City's governmental activities increased \$553,024, or 4%. An increase in taxes can be attributed to an increase in income taxes, which was the result of improving economic conditions. The City began providing inter-hospital transportation for patients, which resulted in an increase in charges for services. An increase in capital grants can be attributed to federal highway grants. Expenses remained consistent with the prior year.

The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City.

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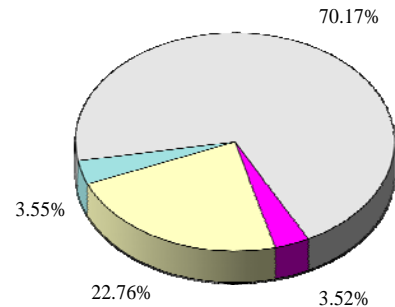
CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2015**

Unaudited

Income taxes and property taxes made up 66% and 4% respectively of revenues for governmental activities in 2015. The City's reliance upon tax revenues is demonstrated by the following graph indicating 70% of total revenues from general tax revenues:

Revenue Sources	2015	Percent of Total
General Tax Revenues	\$4,166,989	70.17%
Intergovernmental, Unrestricted	209,293	3.52%
Program Revenues	1,351,534	22.76%
General Other	210,625	3.55%
Total Revenue	\$5,938,441	100.00%



Business-Type Activities

Net position of business-type activities increased \$415,648. This represents a 3% change from the previous year. Revenues remained consistent with the previous year. A decrease in costs for materials and supplies contributed to a decrease in expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$4,890,874, which is an increase from last year's balance of \$4,886,814. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2015 and 2014:

	Fund Balance December 31, 2015	Fund Balance December 31, 2014	Increase (Decrease)
General	\$1,003,472	\$934,904	\$68,568
Income Tax Capital Improvement	2,426,545	2,593,953	(167,408)
Other Governmental	1,460,857	1,357,957	102,900
Total	\$4,890,874	\$4,886,814	\$4,060

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

General Fund – The City's General Fund balance change is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2015 <u>Revenues</u>	2014 <u>Revenues</u>	Increase <u>(Decrease)</u>
Taxes	\$3,179,583	\$2,931,658	\$247,925
Intergovernmental Revenue	245,490	212,516	32,974
Charges for Services	699,898	484,547	215,351
Licenses and Permits	18,467	9,272	9,195
Investment Earnings	13,079	8,913	4,166
Fines and Forfeitures	16,498	24,088	(7,590)
All Other Revenue	144,863	227,200	(82,337)
Total	<u>\$4,317,878</u>	<u>\$3,898,194</u>	<u>\$419,684</u>

General Fund revenues increased approximately 11% when compared to revenues in 2014. An increase in taxes can be attributed to an increase in income taxes, which was the result of improving economic conditions. The City began providing inter-hospital transportation for patients, which resulted in an increase in charges for services.

	2015 <u>Expenditures</u>	2014 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,516,563	\$2,369,880	\$146,683
Basic Utility Services	49,990	29,368	20,622
Leisure Time Activities	458,309	440,479	17,830
Community Environment	181,250	181,334	(84)
Transportation	318,785	281,672	37,113
General Government	721,061	639,412	81,649
Capital Outlay	2,963	1,221	1,742
Total	<u>\$4,248,921</u>	<u>\$3,943,366</u>	<u>\$305,555</u>

General Fund expenditures increased \$305,555, or 8% when compared with the previous year. In 2015 the City transitioned from outsourcing fire services to having a full time City fire department, which resulted in an increase in security of persons and property. An increase in leisure time activities can be attributed in part to baseball field fertilization. Income tax refunds and indigent counsel fees contributed to an increase in general government

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

Income Tax Capital Improvement Fund – The Income Tax Capital Improvement fund balance decreased approximately 6%. Revenues were consistent with the prior year. Expenditures increased in 2015 due to outlays for improvements to Linfoot Street, an EMS ambulance, and various police and fire equipment.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. During the course of 2015 the City amended its General Fund budget several times, none significant.

For the General Fund, original budgeted, final budgeted and actual budget basis revenues were not significantly different. Actual budget basis expenditures of \$4.3 million were less than final and original budget estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015 the City had \$28,243,382 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, equipment and vehicles. Of this total, \$12,839,699 was related to governmental activities and \$15,403,683 to the business-type activities. The following tables show 2015 and 2014 balances:

	Governmental Activities		Increase (Decrease)
	2015	2014	
Land	\$1,538,017	\$1,538,017	\$0
Construction In Progress	737,605	291,188	446,417
Buildings	3,583,560	3,838,753	(255,193)
Improvements Other than Buildings	3,580,698	3,615,990	(35,292)
Machinery and Equipment	4,416,628	3,928,127	488,501
Infrastructure	7,514,542	7,514,542	0
Less: Accumulated Depreciation	(8,531,351)	(8,147,312)	(384,039)
Totals	<u>\$12,839,699</u>	<u>\$12,579,305</u>	<u>\$260,394</u>

An increase in construction in progress can be attributed to the Linfoot Street improvement project. The purchase of an EMS ambulance and various police and fire equipment resulted in the increase in machinery and equipment.

CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2015**

Unaudited

	Business-Type Activities		Increase (Decrease)
	2015	2014	
Land	\$103,710	\$103,710	\$0
Buildings	8,420,302	7,738,090	682,212
Improvements other than Buildings	15,388,999	15,384,048	4,951
Machinery and Equipment	5,454,844	5,108,748	346,096
Less: Accumulated Depreciation	<u>(13,964,172)</u>	<u>(13,342,248)</u>	<u>(621,924)</u>
Totals	<u>\$15,403,683</u>	<u>\$14,992,348</u>	<u>\$411,335</u>

Additions to buildings included the replacement of a wastewater digester lid while an increase in machinery and equipment included a screw pump replacement at the wastewater plant.

Additional information on the City's capital assets can be found in Note 8.

Debt

The following table summarizes the City's debt outstanding as of December 31, 2015 and 2014:

	2015	Restated 2014
Governmental Activities:		
General Obligation Bonds	\$2,335,000	\$2,465,000
Net Pension Liability	2,832,429	2,700,532
Compensated Absences	<u>401,304</u>	<u>355,497</u>
Total Governmental Activities	<u>5,568,733</u>	<u>5,521,029</u>
Business-Type Activities:		
Ohio Water Development Authority Loans	2,643,931	2,781,115
Long Term Note Payable	1,350,000	1,450,000
Net Pension Liability	746,944	731,749
Compensated Absences	<u>56,423</u>	<u>87,768</u>
Total Business-Type Activities	<u>4,797,298</u>	<u>5,050,632</u>
Totals	<u>\$10,366,031</u>	<u>\$10,571,661</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2015, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2015***

Unaudited

ECONOMIC FACTORS

The City of Wauseon is the county seat of Fulton County, located in the northwest corner of Ohio. The City's main source of revenue is a 1.5% income tax levied on residents of the City and nonresidents working within the City. Income tax revenues collected are allocated between the General Fund and the Capital Projects Fund. Income tax receipts for 2015 were up by approximately 7.18% when compared to 2014.

The City is showing signs of economic recovery and stability as income tax receipts have been increasing steadily for the past five (5) years. Conservative budgeting continues to be a reflection of the general economic climate as well as State mandated local government funds reduction and the elimination of the estate tax. Continued employment is key to the stability and growth of the City's revenue stream.

The two types of employers with the largest number of employees are manufacturing and governmental/health.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or the need for additional financial information should be directed to Jamie L. Giguere, Director of Finance, City of Wauseon at 419-335-9022 or jamie.giguere@cityofwauseon.com.

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CITY OF WAUSEON, OHIO

Statement of Net Position December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 2,825,735	\$ 3,575,208	\$ 6,400,943
Investments	1,172,143	1,222,816	2,394,959
Receivables:			
Taxes	1,084,566	0	1,084,566
Accounts	95,839	360,437	456,276
Intergovernmental	433,676	0	433,676
Interest	2,211	0	2,211
Special Assessments	1,076,306	0	1,076,306
Loans	139,356	150,299	289,655
Inventory of Supplies at Cost	50,347	162,271	212,618
Prepaid Items	36,039	36,008	72,047
Restricted Assets:			
Cash and Cash Equivalents	447,425	0	447,425
Cash and Cash Equivalents with Fiscal Agent	111,302	0	111,302
Non-Depreciable Capital Assets	2,275,622	103,710	2,379,332
Depreciable Capital Assets, Net	10,564,077	15,299,973	25,864,050
Total Assets	20,314,644	20,910,722	41,225,366
Deferred Outflows of Resources:			
Pension:			
OPERS	187,895	130,206	318,101
OP&F	273,886	0	273,886
Total Deferred Outflows of Resources	461,781	130,206	591,987
Liabilities:			
Accounts Payable	257,890	276,176	534,066
Accrued Wages and Benefits	185,898	64,114	250,012
Accrued Interest Payable	6,982	4,988	11,970
Noncurrent Liabilities:			
Due Within One Year	340,753	1,514,588	1,855,341
Due in More Than One Year:			
Net Pension Liability	2,832,429	746,944	3,579,373
Other Amounts Due in More Than One Year	2,395,551	2,535,766	4,931,317
Total Liabilities	6,019,503	5,142,576	11,162,079
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	477,440	0	477,440
Pension:			
OPERS	18,508	13,153	31,661
Total Deferred Inflows of Resources	495,948	13,153	509,101
Net Position:			
Net Investment in Capital Assets	10,504,699	11,409,752	21,914,451
Restricted For:			
Capital Projects	1,223,291	0	1,223,291
Other Purposes	1,642,746	0	1,642,746
Unrestricted	890,238	4,475,447	5,365,685
Total Net Position	\$ 14,260,974	\$ 15,885,199	\$ 30,146,173

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Statement of Activities
For the Year Ended December 31, 2015

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 2,654,300	\$ 708,130	\$ 50,223	\$ 10,338
Basic Utility Services	98,967	5,490	0	0
Leisure Time Activities	574,149	0	0	0
Community Environment	282,524	19,145	0	0
Transportation	906,745	0	379,794	148,604
General Government	779,667	29,810	0	0
Interest and Fiscal Charges	89,065	0	0	0
Total Governmental Activities	5,385,417	762,575	430,017	158,942
Business-Type Activities:				
Water	1,330,823	1,675,776	0	0
Wastewater	1,410,357	1,475,011	0	0
Total Business-Type Activities	2,741,180	3,150,787	0	0
Totals	\$ 8,126,597	\$ 3,913,362	\$ 430,017	\$ 158,942

General Revenues

Property Taxes Levied for:
 General Purposes
 Parks and Recreation
Income Taxes
Intergovernmental Revenues, Unrestricted
Investment Earnings
Miscellaneous
Total General Revenues

Change in Net Position

Net Position Beginning of Year - Restated
Net Position End of Year

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,885,609)	\$ 0	\$ (1,885,609)
(93,477)	0	(93,477)
(574,149)	0	(574,149)
(263,379)	0	(263,379)
(378,347)	0	(378,347)
(749,857)	0	(749,857)
(89,065)	0	(89,065)
<u>(4,033,883)</u>	<u>0</u>	<u>(4,033,883)</u>
0	344,953	344,953
0	64,654	64,654
<u>0</u>	<u>409,607</u>	<u>409,607</u>
<u>\$ (4,033,883)</u>	<u>\$ 409,607</u>	<u>\$ (3,624,276)</u>
217,517	0	217,517
5,924	0	5,924
3,943,548	0	3,943,548
209,293	0	209,293
22,086	6,041	28,127
188,539	0	188,539
<u>4,586,907</u>	<u>6,041</u>	<u>4,592,948</u>
553,024	415,648	968,672
<u>13,707,950</u>	<u>15,469,551</u>	<u>29,177,501</u>
<u>\$ 14,260,974</u>	<u>\$ 15,885,199</u>	<u>\$ 30,146,173</u>

CITY OF WAUSEON, OHIO

**Balance Sheet
Governmental Funds
December 31, 2015**

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 453,646	\$ 1,811,813	\$ 560,276	\$ 2,825,735
Investments	194,539	737,336	240,268	1,172,143
Receivables:				
Taxes	670,967	149,062	264,537	1,084,566
Accounts	95,839	0	0	95,839
Intergovernmental	91,268	148,604	193,804	433,676
Interest	2,211	0	0	2,211
Special Assessments	1,619	1,074,687	0	1,076,306
Loans	0	0	139,356	139,356
Inventory of Supplies, at Cost	27,149	0	23,198	50,347
Prepaid Items	36,039	0	0	36,039
Restricted Assets:				
Cash and Cash Equivalents	0	0	447,425	447,425
Cash and Cash Equivalents with Fiscal Agent	0	0	111,302	111,302
Total Assets	\$ 1,573,277	\$ 3,921,502	\$ 1,980,166	\$ 7,474,945
Liabilities:				
Accounts Payable	\$ 3,949	\$ 253,941	\$ 0	\$ 257,890
Accrued Wages and Benefits Payable	176,388	803	8,707	185,898
Compensated Absences Payable	47,752	0	0	47,752
Total Liabilities	228,089	254,744	8,707	491,540
Deferred Inflows of Resources:				
Unavailable Amounts	122,889	1,240,213	251,989	1,615,091
Property Tax Levy for Next Fiscal Year	218,827	0	258,613	477,440
Total Deferred Inflows of Resources	341,716	1,240,213	510,602	2,092,531
Fund Balance:				
Nonspendable	63,188	0	162,554	225,742
Restricted	0	0	1,298,303	1,298,303
Committed	0	2,426,545	0	2,426,545
Assigned	602,727	0	0	602,727
Unassigned	337,557	0	0	337,557
Total Fund Balance	1,003,472	2,426,545	1,460,857	4,890,874
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,573,277	\$ 3,921,502	\$ 1,980,166	\$ 7,474,945

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Position Of Governmental Activities December 31, 2015

Total Governmental Fund Balances \$ 4,890,874

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 12,839,699

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 1,615,091

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

Deferred Outflows - Pension	461,781	
Deferred Inflows - Pension	(18,508)	
Net Pension Liability	<u>(2,832,429)</u>	(2,389,156)

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

General Obligation Bonds Payable	(2,335,000)	
Compensated Absences Payable	(353,552)	
Accrued Interest Payable	<u>(6,982)</u>	<u>(2,695,534)</u>

Net Position of Governmental Activities **\$ 14,260,974**

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2015

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,179,583	\$ 986,590	\$ 356	\$ 4,166,529
Intergovernmental Revenue	245,490	10,338	352,367	608,195
Charges for Services	699,898	0	0	699,898
Licenses and Permits	18,467	0	0	18,467
Investment Earnings	13,079	(988)	9,995	22,086
Special Assessments	0	74,300	0	74,300
Fines and Forfeitures	16,498	0	27,034	43,532
All Other Revenue	144,863	23,287	20,389	188,539
Total Revenue	<u>4,317,878</u>	<u>1,093,527</u>	<u>410,141</u>	<u>5,821,546</u>
Expenditures:				
Current:				
Security of Persons and Property	2,516,563	0	8,109	2,524,672
Basic Utility Services	49,990	0	0	49,990
Leisure Time Activities	458,309	0	0	458,309
Community Environment	181,250	39,641	20,567	241,458
Transportation	318,785	0	283,954	602,739
General Government	721,061	0	0	721,061
Capital Outlay	2,963	1,223,564	0	1,226,527
Debt Service:				
Principal Retirement	0	0	130,000	130,000
Interest & Fiscal Charges	0	0	89,275	89,275
Total Expenditures	<u>4,248,921</u>	<u>1,263,205</u>	<u>531,905</u>	<u>6,044,031</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	68,957	(169,678)	(121,764)	(222,485)
Other Financing Sources (Uses):				
Sale of Assets	0	221,545	0	221,545
Transfers In	0	0	219,275	219,275
Transfers Out	0	(219,275)	0	(219,275)
Total Other Financing Sources (Uses)	<u>0</u>	<u>2,270</u>	<u>219,275</u>	<u>221,545</u>
Net Change in Fund Balance	68,957	(167,408)	97,511	(940)
Fund Balance at Beginning of Year	934,904	2,593,953	1,357,957	4,886,814
Increase (Decrease) in Inventory	(389)	0	5,389	5,000
Fund Balance End of Year	<u>\$ 1,003,472</u>	<u>\$ 2,426,545</u>	<u>\$ 1,460,857</u>	<u>\$ 4,890,874</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended December 31, 2015***

Net Change in Fund Balances - Total Governmental Funds \$ (940)

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

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

Capital Outlay	1,134,082	
Depreciation Expense	(736,370)	397,712

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net position.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(137,318)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		116,895
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		328,973
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(289,453)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

General Obligation Bond Principal Retirement	130,000	
Accrued Interest Payable	210	130,210

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

Compensated Absences	1,945	
Change in Inventory	5,000	6,945

<i>Change in Net Position of Governmental Activities</i>		<u>\$ 553,024</u>
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See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 2,896,000	\$ 3,074,793	\$ 3,082,241	\$ 7,448
Intergovernmental Revenue	215,350	255,207	255,008	(199)
Charges for Services	616,500	673,600	674,133	533
Licenses and Permits	8,400	18,300	18,467	167
Investment Earnings	12,000	11,000	11,397	397
Fines and Forfeitures	23,200	17,300	17,318	18
All Other Revenues	200,500	146,000	145,958	(42)
Total Revenues	<u>3,971,950</u>	<u>4,196,200</u>	<u>4,204,522</u>	<u>8,322</u>
Expenditures:				
Current:				
Security of Persons and Property	2,819,600	2,616,950	2,557,972	58,978
Basic Utility Services	35,348	58,998	52,314	6,684
Leisure Time Activities	591,749	515,399	483,493	31,906
Community Environment	233,926	202,440	186,769	15,671
Transportation	278,577	307,027	299,482	7,545
General Government	736,557	775,107	732,657	42,450
Capital Outlay	3,200	3,200	2,963	237
Total Expenditures	<u>4,698,957</u>	<u>4,479,121</u>	<u>4,315,650</u>	<u>163,471</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(727,007)	(282,921)	(111,128)	171,793
Other Financing Sources (Uses):				
Transfers In	150,000	0	0	0
Total Other Financing Sources (Uses):	<u>150,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(577,007)	(282,921)	(111,128)	171,793
Fund Balance at Beginning of Year	456,828	456,828	456,828	0
Prior Year Encumbrances	212,289	212,289	212,289	0
Fund Balance at End of Year	<u>\$ 92,110</u>	<u>\$ 386,196</u>	<u>\$ 557,989</u>	<u>\$ 171,793</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2015**

	Business-Type Activities		
	Enterprise Funds		Total
	Water	Wastewater	
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$ 1,587,714	\$ 1,987,494	\$ 3,575,208
Investments	0	1,222,816	1,222,816
Receivables:			
Accounts	182,033	178,404	360,437
Loans	150,299	0	150,299
Inventory of Supplies at Cost	151,612	10,659	162,271
Prepaid Items	7,386	28,622	36,008
Total Current Assets	2,079,044	3,427,995	5,507,039
Noncurrent Assets:			
Capital Assets, Net	7,245,527	8,158,156	15,403,683
Total Assets	9,324,571	11,586,151	20,910,722
Deferred Outflows of Resources:			
Pension:			
OPERS	66,787	63,419	130,206
Total Deferred Outflows of Resources	66,787	63,419	130,206
Liabilities:			
Current Liabilities:			
Accounts Payable	1,419	274,757	276,176
Accrued Wages and Benefits	35,648	28,466	64,114
Compensated Absences Payable - Current	10,626	12,149	22,775
Accrued Interest Payable	4,988	0	4,988
General Obligation Notes Payable	1,350,000	0	1,350,000
OWDA Loans Payable - Current	16,653	125,160	141,813
Total Current Liabilities	1,419,334	440,532	1,859,866
Noncurrent Liabilities:			
OWDA Loans Payable	133,646	2,368,472	2,502,118
Compensated Absences Payable	21,347	12,301	33,648
Net Pension Liability	400,584	346,360	746,944
Total Noncurrent Liabilities	555,577	2,727,133	3,282,710
Total Liabilities	1,974,911	3,167,665	5,142,576
Deferred Inflows of Resources:			
Pension:			
OPERS	7,110	6,043	13,153
Total Deferred Inflows of Resources	7,110	6,043	13,153
Net Position:			
Net Investment in Capital Assets	5,745,228	5,664,524	11,409,752
Unrestricted	1,664,109	2,811,338	4,475,447
Total Net Position	\$ 7,409,337	\$ 8,475,862	\$ 15,885,199

See accompanying notes to the basic financial statements

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CITY OF WAUSEON, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2015

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
Operating Revenues:			
Charges for Services	\$ 1,635,317	\$ 1,474,428	\$ 3,109,745
Total Operating Revenues	<u>1,635,317</u>	<u>1,474,428</u>	<u>3,109,745</u>
Operating Expenses:			
Personal Services	557,338	552,395	1,109,733
Contractual Services	196,828	149,173	346,001
Materials and Supplies	262,273	216,592	478,865
Depreciation	233,420	396,208	629,628
Total Operating Expenses	<u>1,249,859</u>	<u>1,314,368</u>	<u>2,564,227</u>
Operating Income	385,458	160,060	545,518
Non-Operating Revenues (Expenses):			
Interest Income	1,627	4,414	6,041
Interest and Fiscal Charges	(14,901)	(86,329)	(101,230)
Loss on Disposal of Capital Assets	(856)	0	(856)
Other Nonoperating Revenue	40,459	583	41,042
Other Nonoperating Expense	(65,207)	(9,660)	(74,867)
Total Non-Operating Revenues (Expenses)	<u>(38,878)</u>	<u>(90,992)</u>	<u>(129,870)</u>
Change in Net Position	346,580	69,068	415,648
Net Position Beginning of Year - Restated	<u>7,062,757</u>	<u>8,406,794</u>	<u>15,469,551</u>
Net Position End of Year	<u>\$ 7,409,337</u>	<u>\$ 8,475,862</u>	<u>\$ 15,885,199</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,707,963	\$1,481,812	\$3,189,775
Cash Payments for Goods and Services	(525,051)	(377,854)	(902,905)
Cash Payments to Employees	(585,441)	(580,760)	(1,166,201)
Net Cash Provided by Operating Activities	<u>597,471</u>	<u>523,198</u>	<u>1,120,669</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(192,005)	(586,525)	(778,530)
Notes Issued	1,350,000	0	1,350,000
Note Retirement	(1,450,000)	0	(1,450,000)
OWDA Loan Retirement	(16,102)	(121,082)	(137,184)
Interest Paid on All Debt	(12,476)	(86,329)	(98,805)
Net Cash Used by Capital and Related Financing Activities	<u>(320,583)</u>	<u>(793,936)</u>	<u>(1,114,519)</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	0	(1,250,290)	(1,250,290)
Sale of Investments	0	1,237,293	1,237,293
Receipts of Interest	1,627	8,744	10,371
Net Cash Provided (Used) by Investing Activities	<u>1,627</u>	<u>(4,253)</u>	<u>(2,626)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	278,515	(274,991)	3,524
Cash and Cash Equivalents at Beginning of Year	<u>1,309,199</u>	<u>2,262,485</u>	<u>3,571,684</u>
Cash and Cash Equivalents at End of Year	<u>\$1,587,714</u>	<u>\$1,987,494</u>	<u>\$3,575,208</u>

(Continued)

CITY OF WAUSEON, OHIO

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income	\$385,458	\$160,060	\$545,518
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Depreciation Expense	233,420	396,208	629,628
Miscellaneous Nonoperating Revenue	56,645	583	57,228
Miscellaneous Nonoperating Expense	(65,207)	(9,660)	(74,867)
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	16,001	6,801	22,802
Decrease in Inventory	1,821	1,098	2,919
Increase in Deferred Outflows of Resources	(66,787)	(63,419)	(130,206)
Decrease in Accounts Payable	(2,564)	(3,360)	(5,924)
Decrease in Accrued Wages and Benefits	(8,058)	(6,755)	(14,813)
Decrease in Compensated Absences	(14,799)	(16,546)	(31,345)
Increase in Net Pension Liability	54,431	52,145	106,576
Increase in Deferred Inflows of Resources	7,110	6,043	13,153
Total Adjustments	212,013	363,138	575,151
Net Cash Provided by Operating Activities	<u>\$597,471</u>	<u>\$523,198</u>	<u>\$1,120,669</u>

Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 2015 the Wastewater Fund had outstanding liabilities of \$267,198 for the purchase of certain capital assets.

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Wauseon (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution, the laws of the State of Ohio and its Charter. Wauseon became a city on April 20, 1981, and operates under a Council/Mayor form of government.

The financial statements are presented as of December 31, 2015 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: public safety, highways and streets, sanitation, health and social services, culture/recreation, public improvements, planning and zoning, and general administrative services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

Jointly Governed Organization

The City in conjunction with the Clinton Township Trustees formed the Wauseon Union Cemetery (the "Cemetery") under the authority of Ohio Revised Code Section 759.27. The Cemetery's Board of Trustees is composed of three members, one of whom is a member of the Board of Township Trustees and one a member of the Wauseon City Council. Funding for the Cemetery is provided by a tax levy on all real property located within Clinton Township. Taxes are collected by the County Auditor and remitted to the Board of Cemetery Trustees for use in the care and maintenance of the Cemetery.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds - Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except the resources accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial resources except those 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 and the limitations of the City Charter.

Income Tax Capital Improvement Fund - This fund is used to account for the financial resources used for the major capital projects undertaken by the City. These financial resources include 25% of City income tax receipts.

Proprietary Funds

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The enterprise funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities, and deferred outflows/inflows of resources associated with the operation of these funds are included on the balance sheet. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The City's major enterprise funds are:

Water Fund - This fund is used to account for the operation of the City's water service.

Wastewater Fund - This fund is used to account for the operation of the City's sanitary sewer service.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus.

The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and deferred outflows/inflows of resources and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes, interest on investments, loans and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred inflows of resources. Property taxes measurable as of December 31, 2015 but which are not intended to finance 2015 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 5.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The accrual basis of accounting is utilized for reporting purposes by the government wide financial statements and by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is at the fund and function level. Budgetary modifications may only be made by ordinance or resolution of the City Council.

1. Tax Budget

Prior to fiscal year 2002, the Finance Director would submit an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget was submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year. Beginning in year 2002, this requirement was waived by the County Budget Commission.

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CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2015.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. The budgetary figures which appear in the Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual Non-GAAP Budgetary Basis for the General Fund is provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities.

5. Lapsing of Appropriations

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures on the budgetary basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	\$68,957
Increase (Decrease):	
Accrued Revenues at December 31, 2015 received during 2016	(520,188)
Accrued Revenues at December 31, 2014 received during 2015	406,832
Accrued Expenditures at December 31, 2015 paid during 2016	228,089
Accrued Expenditures at December 31, 2014 paid during 2015	(201,378)
2014 Prepays for 2015	32,795
2015 Prepays for 2016	(36,039)
Outstanding Encumbrances	(90,196)
Budget Basis	<u><u>(\$111,128)</u></u>

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of three months or less.

The City pools a majority of its cash for investment and resource management purposes, while maintaining some segregated funds. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts which are reported at cost. The City allocates interest among the various funds as determined by City Ordinance. See Note 4, "Cash, Cash Equivalents and Investments."

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Position, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Buildings	30
Improvements other than Buildings	30 - 50
Infrastructure	30
Machinery, Equipment, Furniture and Fixtures	10

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loans	Water Fund, Wastewater Fund
Compensated Absences	General Fund, Street Construction, Maintenance and Repair Fund, Water Fund, Wastewater Fund
Long Term Note Payable/GO Bonds	Bond Retirement Fund, Water Fund

L. Compensated Absences

All full-time City employees earn vacation at varying rates based upon length of service. Ohio Law requires that vacation time not be accumulated for more than three years. However, City policy requires that all vacation time be used by the employee's anniversary date. Accrued vacation may be carried over with the written authorization of the department head. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment.

All full-time City employees earn sick leave at the rate of 1.25 days per calendar month of active service. Unused sick time may be accumulated until retirement. Police department employees with a minimum of ten years of service with the City are paid one-quarter of the accumulated sick time upon retirement to a maximum of 60 days wages. All other employees with a minimum of ten years of service with the City are paid 35% of the accumulated sick time upon retirement to a maximum of 60 days wages. Monetary compensation for accumulated unused vacation and/or sick leave is the hourly rate of compensation of the employee at the time of separation.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered or to rights that vest or accumulate, and when payment of the obligation is probable and can be reasonably determined. For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected. In the government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the enterprise funds when earned and the related liability reported within the funds.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Position

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

N. Pensions

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

O. Interfund Activity

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

P. Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

Restricted – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. 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 (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Fund Balances (Continued)

Committed – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority. For the City, these constraints consist of ordinances passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts.

Assigned – Assigned fund balance consists of amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

Q. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water treatment and distribution and wastewater collection and treatment. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no special or extraordinary items to report during 2015.

S. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. For the City, deferred outflows of resources are reported for pension amounts on the government-wide and proprietary funds statement of net position. See Note 9.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position. See Note 9.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

In 2015 the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure.

In addition, adjustments were necessary to beginning of year net position due to a correction in accounting for special assessments receivable.

The implementation of GASB 68 and the special assessment receivable correction had the following effect on net position as reported December 31, 2014:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>
Net Position December 31, 2014	\$14,987,639	\$16,109,919	\$7,408,910	\$8,701,009
Adjustments:				
Net Pension Liability	(2,700,532)	(731,749)	(395,549)	(336,200)
Deferred Outflows -				
Payments Subsequent to Measurement Date	271,856	91,381	49,396	41,985
Special Assessment Receivable Correction	1,148,987	0	0	0
Restated Net Position December 31, 2014	<u>\$13,707,950</u>	<u>\$15,469,551</u>	<u>\$7,062,757</u>	<u>\$8,406,794</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 3 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	Income Tax Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Loans Receivable	\$0	\$0	\$139,356	\$139,356
Prepaid Items	36,039	0	0	36,039
Supplies Inventory	27,149	0	23,198	50,347
Total Nonspendable	<u>63,188</u>	<u>0</u>	<u>162,554</u>	<u>225,742</u>
Restricted:				
Street Improvements	0	0	779,625	779,625
Parks and Recreation	0	0	356	356
Drug and Alcohol Treatment and Education	0	0	70,897	70,897
Community Development and Improvement	0	0	447,425	447,425
Total Restricted	<u>0</u>	<u>0</u>	<u>1,298,303</u>	<u>1,298,303</u>
Committed:				
Capital Improvements	0	2,426,545	0	2,426,545
Assigned:				
2016 Budget Deficit	516,479	0	0	516,479
Encumbrances	86,248	0	0	86,248
Total Assigned	<u>602,727</u>	<u>0</u>	<u>0</u>	<u>602,727</u>
Unassigned:				
	<u>337,557</u>	<u>0</u>	<u>0</u>	<u>337,557</u>
Total Fund Balances	<u>\$1,003,472</u>	<u>\$2,426,545</u>	<u>\$1,460,857</u>	<u>\$4,890,874</u>

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The City maintains a cash and investments pool used by all funds except the Water Operating, Water Service Deposits, Wastewater Operating, Wastewater Debt Reserve, and the Revolving Loan Funds. Each fund type's portion of this pool is displayed on the Balance Sheet as "Cash and Cash Equivalents." The deposits and investments of the aforementioned funds are held separately from those of other City funds. Ohio law requires the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$6,847,718 and the bank balance was \$6,915,913. Federal depository insurance covered \$630,543 of the bank balance and \$6,285,370 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$578,080
Uninsured and collateralized with securities held by the pledging institution's trust department in the City's name	<u>5,707,290</u>
Total Balance	<u><u>\$6,285,370</u></u>

The City had restricted cash in the amount of \$447,425, which was related to the Community Development Block Grant Economic Development Revolving Loan Fund. In addition, the City had cash with fiscal agent in the amount of \$111,302, which was related to permissive tax monies held and secured by Fulton County. The City had petty cash in the amount of \$650.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments at December 31, 2015 are summarized below:

	Fair Value	Credit Rating	Concentration of Credit Risk	Investment Maturities (in Years)	
				less than 1	1-3
Money Market Mutual Fund	\$314,150	AA+ ¹ / Aaa ²	13.12%	\$314,150	\$0
Marketable CDs	908,598	AAA ³	37.94%	416,010	492,588
FHLMC	119,006	AA+ ¹ / Aaa ²	4.97%	0	119,006
FHLB	199,556	AA+ ¹ / Aaa ²	8.33%	0	199,556
FNMA	853,649	AA+ ¹ / Aaa ²	35.64%	435,733	417,916
Total Investments	<u>\$2,394,959</u>		<u>100.00%</u>	<u>\$1,165,893</u>	<u>\$1,229,066</u>

¹ Standard & Poor's

² Moody's Investor Service

³ All are fully FDIC insured and therefore have an implied AAA credit rating

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer. Investment distribution is detailed in the table above.

Custodial Credit Risk – The City's balance of investments are held by the trust department of its banking institution in the City's name.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the financial statements and the classifications per items A and B of this note are as follows:

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$6,959,670	\$2,394,959
Cash with Fiscal Agent	(111,302)	
Petty Cash	(650)	
Per GASB Statement No. 3	<u>\$6,847,718</u>	<u>\$2,394,959</u>

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2015 were levied after October 1, 2014 on assessed values as of January 1, 2014, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2014. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Wauseon. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2015 was \$2.20 per \$1,000 of assessed value. The assessed value upon which the 2015 levy was based was \$113,118,850. This amount constitutes \$99,274,700 in real property assessed value and \$13,844,150 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of one percent of assessed value without a vote of the people. Under current procedures, the City's share is .22% (2.20 mills) of assessed value.

B. Income Tax

The City levies a tax of one and one half percent on all salaries, wages, and other compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City. The tax also applies to the net income earned by business organizations on work conducted within the City of Wauseon. Income tax revenue is accounted for through the General and Income Tax Capital Improvement Funds.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2015 consisted of taxes, accounts receivable, special assessments, interest, loans receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred inflows are considered collectible in full.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2015:

Fund	Transfer In	Transfer Out
Income Tax Capital Improvement Fund	\$0	\$219,275
Other Governmental Funds	219,275	0
Totals	<u>\$219,275</u>	<u>\$219,275</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and to transfer capital assets.

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2015:

Historical Cost:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
<i>Capital assets not being depreciated:</i>				
Land	\$1,538,017	\$0	\$0	\$1,538,017
Construction in Progress	291,188	446,417	0	737,605
Subtotal	<u>1,829,205</u>	<u>446,417</u>	<u>0</u>	<u>2,275,622</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,838,753	53,168	(308,361)	3,583,560
Improvements Other than Buildings	3,615,990	7,689	(42,981)	3,580,698
Machinery and Equipment	3,928,127	626,808	(138,307)	4,416,628
Infrastructure	7,514,542	0	0	7,514,542
Subtotal	<u>18,897,412</u>	<u>687,665</u>	<u>(489,649)</u>	<u>19,095,428</u>
Total Cost	<u>\$20,726,617</u>	<u>\$1,134,082</u>	<u>(\$489,649)</u>	<u>\$21,371,050</u>

Accumulated Depreciation:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
Buildings	(\$2,419,770)	(\$101,652)	\$197,037	(\$2,324,385)
Improvements Other than Buildings	(986,518)	(134,227)	38,683	(1,082,062)
Machinery and Equipment	(2,301,241)	(277,088)	116,611	(2,461,718)
Infrastructure	(2,439,783)	(223,403)	0	(2,663,186)
Total Accumulated Depreciation	<u>(\$8,147,312)</u>	<u>(\$736,370) *</u>	<u>\$352,331</u>	<u>(\$8,531,351)</u>
<i>Net Value:</i>	<u>\$12,579,305</u>			<u>\$12,839,699</u>

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Activities Capital Assets (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$140,335
Basic Utility Services	49,299
Leisure Time Activities	116,719
Community Environment	39,510
Transportation	314,036
General Government	76,471
Total Depreciation Expense	\$736,370

Under GASB Statement No. 34, the City is not required to retroactively report infrastructure assets. Only infrastructure capital assets acquired or constructed beginning in 2003 are reflected in the basic financial statements for the year ended December 31, 2015.

B. Business-Type Activities Capital Assets

Summary by category of changes in business-type activities capital assets at December 31, 2015:

Historical Cost:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
<i>Capital assets not being depreciated:</i>				
Land	\$103,710	\$0	\$0	\$103,710
<i>Capital assets being depreciated:</i>				
Buildings	7,738,090	682,212	0	8,420,302
Improvements other than Buildings	15,384,048	4,951	0	15,388,999
Machinery and Equipment	5,108,748	354,656	(8,560)	5,454,844
Subtotal	28,230,886	1,041,819	(8,560)	29,264,145
Total Cost	\$28,334,596	\$1,041,819	(\$8,560)	\$29,367,855

Accumulated Depreciation:

Class	December 31, 2014	Additions	Deletions	December 31, 2015
Buildings	(\$4,382,645)	(\$202,108)	\$0	(\$4,584,753)
Improvements other than Buildings	(4,643,891)	(361,538)	0	(5,005,429)
Machinery and Equipment	(4,315,712)	(65,982)	7,704	(4,373,990)
Total Accumulated Depreciation	(\$13,342,248)	(\$629,628)	\$7,704	(\$13,964,172)
Net Value:	\$14,992,348			\$15,403,683

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

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

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

CITY OF WAUSEON, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2015***

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

	<u>State and Local</u>
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$221,943 for 2015.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

Plan Description - City 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 and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

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

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

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

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>Police</u>	<u>Firefighters</u>
2015 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
2015 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$197,290 for 2015.

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

The net pension liability for OPERS was measured as of December 31, 2014, 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, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,802,173	\$1,777,200	\$3,579,373
Proportion of the Net Pension Liability	0.014942%	0.034306%	
Pension Expense	\$196,183	\$173,053	\$369,236

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$96,158	\$76,596	\$172,754
City contributions subsequent to the measurement date	<u>221,943</u>	<u>197,290</u>	<u>419,233</u>
Total Deferred Outflows of Resources	<u>\$318,101</u>	<u>\$273,886</u>	<u>\$591,987</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	<u>\$31,661</u>	<u>\$0</u>	<u>\$31,661</u>

\$419,233 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2016	\$9,432	\$19,149	\$28,581
2017	9,432	19,149	28,581
2018	21,596	19,149	40,745
2019	<u>24,037</u>	<u>19,149</u>	<u>43,186</u>
Total	<u>\$64,497</u>	<u>\$76,596</u>	<u>\$141,093</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$3,315,480	\$1,802,173	\$527,602

Actuarial Assumptions – OPF

OPF’s total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, 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, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* 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 their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$2,458,135	\$1,777,200	\$1,200,653

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (“OPERS”)

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B Premium reimbursement, to qualifying member of both the Traditional Pension and the Combined Plans. Members of the Member Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (“OPERS”) (Continued)

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2015, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee’s Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The City's contributions for health care to the OPERS for the years ending December 31, 2015, 2014, and 2013 were \$38,843, \$38,169 and \$18,626, respectively, which were equal to the required contributions for each year.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund (“OP&F”)

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F’s website at www.op-f.org.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2015, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2015, 2014, and 2013 were \$3,342, \$3,438 and \$24,228 for police and \$1,336, \$281 and \$574 for firefighters, respectively, which were equal to the required contributions for each year.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2015**

NOTE 11 - LONG-TERM OBLIGATIONS

Activity in Long-Term Obligations in 2015 was as follows:

Interest Rate	Purpose	Maturity Date	Restated Balance December 31, 2014	Additions	Deductions	Balance December 31, 2015	Amount Due Within One Year
Governmental Activities:							
General Obligation Bonds:							
2.0-5.0%	Street Improvement	2029	\$2,465,000	\$0	(\$130,000)	\$2,335,000	\$135,000
Net Pension Liability:							
	Ohio Public Employees Retirement System		1,029,717	25,512	0	1,055,229	0
	Ohio Police and Fire Pension Fund		1,670,815	106,385	0	1,777,200	0
	Total Net Pension Liability		2,700,532	131,897	0	2,832,429	0
	Compensated Absences		355,497	192,700	(146,893)	401,304	205,753
	Total Governmental Activities		5,521,029	324,597	(276,893)	5,568,733	340,753
Business-Type Activities:							
Ohio Water Development Authority Loans:							
3.34%	Wastewater Treatment Plant	2031	2,614,714	0	(121,082)	2,493,632	125,160
3.39%	Tedrow Water Supply Improvements	2024	166,401	0	(16,102)	150,299	16,653
	Total Ohio Water Development Authority Loans		2,781,115	0	(137,184)	2,643,931	141,813
Long Term Note Payable:							
0.48%	Water Improvements	2015	1,450,000	0	(1,450,000)	0	0
1.00%	Water Improvements	2016	0	1,350,000	0	1,350,000	1,350,000
Net Pension Liability:							
	Ohio Public Employees Retirement System		731,749	15,195	0	746,944	0
	Compensated Absences		87,768	11,481	(42,826)	56,423	22,775
	Total Business-Type Activities		5,050,632	1,376,676	(1,630,010)	4,797,298	1,514,588
	Total Other Long-Term Obligations		\$10,571,661	\$1,701,273	(\$1,906,903)	\$10,366,031	\$1,855,341

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

The City issued \$3,000,000 of street improvement bonds on May 26, 2011. This bond issue includes serial and term bonds and matures in 2029.

In 2002 the City entered into a loan agreement with OWDA on behalf of Fulton County for the Tedrow Waterline Project. Fulton County remits payment to the City in order to meet the loan debt obligation.

In 2010 the City entered into an agreement with the OWDA, as administrator for the U. S. Environmental Protection Agency (EPA), for the City to receive a loan for improvements to the City's wastewater treatment plant. The interest rate on the loan is 3.34%, per annum. This loan is payable from wastewater charges.

The Water Improvements Note Payable series 2015 will mature on August 17, 2016 and was issued in anticipation of the issuance of bonds for the purpose of improving the municipal waterworks system. The notes were used to retire the series 2014 notes payable, which matured on August 18, 2015.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015 are as follows:

Years	Governmental Activities		Business-Type Activities			
	General Obligation Bond		Long Term Note		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$135,000	\$86,675	\$1,350,000	\$13,500	\$141,813	\$87,207
2017	135,000	83,638	0	0	146,596	82,421
2018	140,000	80,263	0	0	151,542	77,476
2019	145,000	76,588	0	0	156,655	72,364
2020	150,000	72,238	0	0	161,942	67,077
2021-2025	835,000	266,990	0	0	851,118	250,760
2026-2030	795,000	84,839	0	0	932,263	104,789
2031	0	0	0	0	102,002	1,703
Totals	\$2,335,000	\$751,231	\$1,350,000	\$13,500	\$2,643,931	\$743,797

The City's total debt margin was \$9,542,479 at December 31, 2015. The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 12 - 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 2015, the City participated in the Public Entities Pool of Ohio (PEP), established as a risk sharing self insurance pool for the purpose of enabling the subscribing political subdivisions to obtain liability insurance and providing a formalized, jointly administered self-insurance program for its members. PEP is a corporation governed by a seven member board of directors, consisting of representatives elected by the 230 participating governments.

The City pays an annual premium to the PEP. The agreement provides that the PEP will be self-sustaining through member premiums and excess insurance. The types of coverages and deductibles per occurrence are as follows:

<u>Coverage</u>		
Real Property	\$26,072,263/1,000	per occurrence
Personal Property	\$8,012,400/1,000	per occurrence
Automobile/Equipment	\$2,554,640/500-1,000	per occurrence

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 13 - CONTINGENCIES

A. Grants

The City received financial assistance from State and Federal agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2015.

B. Litigation

There are currently no matters in litigation with the City as defendant.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 14 – RAW WATERLINE COST SHARING AGREEMENT

The City of Wauseon and City of Napoleon, Henry County entered into an agreement for the construction and operation of a raw water supply line from the City of Napoleon to the City of Wauseon. The City of Wauseon paid for the construction of the raw water line. Per the agreement, the City of Napoleon contributed \$1,000,000 towards its share of the project in 2001. The balance of the City of Napoleon's commitment will be repaid through water credits to the City of Wauseon over a period of twenty five years.

CITY OF WAUSEON, OHIO

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WAUSEON, OHIO

Schedule of City's Proportionate Share of the Net Pension Liability Last Two Years

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.014942%	0.014942%
City's proportionate share of the net pension liability (asset)	\$1,761,466	\$1,802,173
City's covered-employee payroll	\$1,771,000	\$1,833,108
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	99.46%	98.31%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.034306%	0.034306%
City's proportionate share of the net pension liability (asset)	\$1,670,815	\$1,777,200
City's covered-employee payroll	\$735,191	\$740,729
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	227.26%	239.93%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

CITY OF WAUSEON, OHIO

Schedule of City Contributions Last Three Years

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$230,230	\$219,973	\$221,943
Contributions in relation to the contractually required contribution	<u>230,230</u>	<u>219,973</u>	<u>221,943</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$1,771,000	\$1,833,108	\$1,849,525
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$109,635	\$143,264	\$197,290
Contributions in relation to the contractually required contribution	<u>109,635</u>	<u>143,264</u>	<u>197,290</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$735,191	\$740,729	\$968,361
Contributions as a percentage of covered-employee payroll	14.91%	19.34%	20.37%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.



Dave Yost • Auditor of State

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

City of Wauseon
Fulton County
230 Clinton Street
Wauseon, Ohio 43567-2104

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 Wauseon, Fulton County, Ohio, (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 20, 2016, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27 and Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

Columbus, Ohio

October 20, 2016

CITY OF WAUSEON
FULTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015

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

FINDING NUMBER 2015-001

Material Weakness – Financial Reporting

Accurate financial reporting is the responsibility of the Director of Finance and is essential to ensure the information provided to the readers of the financial statements accurately reflects the City's activity.

We noted the following errors on the 2015 financial statements:

- The City was a recipient of a federal highway construction grant in which \$148,604 was to be reimbursed to the City in 2016 for work performed in 2015. A receivable should have been recorded in the Income Tax Capital Improvement Fund and Governmental Activities financial statements to reflect the intergovernmental receivable.
- Supplies on hand used in the operation of the City's water plant inventory with a value of \$58,694 was inadvertently left off the final inventory listing which understated assets for the Water Fund and Business Type Activities financial statements.

Adjustments were recorded to the financial statements to correct the errors.

The City lacked a policy regarding review of financial statements which contributed to the posting errors without detection.

To ensure the City's financial statements and notes to the financial statements are complete and accurate, the City should adopt policies and procedures requiring a final review of the statement to identify and correct errors and omissions.

Officials' Response:

We did not receive a response from Officials to this finding.

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CITY OF WAUSEON

FULTON 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
NOVEMBER 10, 2016