

CITY OF HURON
ERIE COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2016





Dave Yost • Auditor of State

City Council
City of Huron
417 Main Street
Huron, Ohio 44839-1652

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

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

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

Dave Yost
Auditor of State

August 11, 2017

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**CITY OF HURON
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2016**

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

INDEPENDENT AUDITOR'S REPORT

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

To the Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no 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 Huron, Erie County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Street Maintenance Fund and the Fire Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require 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 June 9, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
June 9, 2017

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

The discussion and analysis of the City of Huron's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are advised to review the basic financial statements and the notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- For governmental activities, net position increased \$384,321, which represents an increase of 3.4 percent from 2015.
- Net position of business-type related activities increased \$664,767 or 8.9 percent from 2015.
- General revenues, for governmental activities, accounted for \$3,769,798 or 48.7 percent of total governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,968,503 or 51.3 percent of total governmental revenues of \$7,738,301.
- For business-type activities, total expenses were \$1,987,299; most of these expenses were offset by program specific charges for services and sales.
- The City entered in to several new capital leases in the amount of \$58,492, \$137,954, and \$72,547, for two police cars, a truck equipped with a plow package and a new backhoe.
- The City issued \$3,303,000 in various purpose bond anticipation notes with a 1.11 percent interest rate.

Overview of the Financial Statements

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

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

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

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

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

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

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

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

The City maintains 30 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund, street maintenance and fire levy special revenue funds, general obligation bond retirement debt service fund and the capital improvement capital project fund which are considered to be major funds. Data from the other 25 governmental funds are combined into single aggregate presentation.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

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

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

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

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

Notes to the Basic Financial Statements The notes provide additional information that is essential for a full understanding of the data provided in the government wide and fund financial statements.

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

Government-Wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and answers the question, "How did we do financially during 2016?" The statement of net position and statement of activities answers this question, as stated earlier. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by a private business.

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

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

The City of Huron as a Whole

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

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

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets:						
Current and other assets	\$ 7,992,898	\$ 6,572,149	\$ 2,538,310	\$ 2,494,020	\$ 10,531,208	\$ 9,066,169
Capital assets	<u>16,689,578</u>	<u>16,215,140</u>	<u>7,210,054</u>	<u>6,945,198</u>	<u>23,899,632</u>	<u>23,160,338</u>
Total assets	<u>24,682,476</u>	<u>22,787,289</u>	<u>9,748,364</u>	<u>9,439,218</u>	<u>34,430,840</u>	<u>32,226,507</u>
Deferred outflows of resources:						
Pension	<u>1,793,816</u>	<u>695,551</u>	<u>262,906</u>	<u>77,941</u>	<u>2,056,722</u>	<u>773,492</u>
Liabilities:						
Current liabilities	522,189	739,122	85,459	57,350	607,648	796,472
Long-term liabilities:						
Due within one year	562,802	662,659	293,739	459,876	856,541	1,122,535
Due in more than one year:						
Net pension liability	6,914,004	5,457,307	698,311	479,356	7,612,315	5,936,663
Other amounts	<u>5,899,692</u>	<u>4,627,531</u>	<u>765,463</u>	<u>1,022,081</u>	<u>6,665,155</u>	<u>5,649,612</u>
Total liabilities	<u>13,898,687</u>	<u>11,486,619</u>	<u>1,842,972</u>	<u>2,018,663</u>	<u>15,741,659</u>	<u>13,505,282</u>
Deferred inflows of resources:						
Property taxes	781,947	711,279	-	-	781,947	711,279
Pension	<u>140,983</u>	<u>14,588</u>	<u>13,456</u>	<u>8,421</u>	<u>154,439</u>	<u>23,009</u>
Total deferred inflows of resources	<u>922,930</u>	<u>725,867</u>	<u>13,456</u>	<u>8,421</u>	<u>936,386</u>	<u>734,288</u>
Net Position:						
Net investment in capital assets	11,544,858	11,409,809	6,244,664	5,546,522	17,789,522	16,956,331
Restricted net position	2,736,391	2,480,832	-	-	2,736,391	2,480,832
Unrestricted net position	<u>(2,626,574)</u>	<u>(2,620,287)</u>	<u>1,910,178</u>	<u>1,943,553</u>	<u>(716,396)</u>	<u>(676,734)</u>
Total net position	<u>\$ 11,654,675</u>	<u>\$ 11,270,354</u>	<u>\$ 8,154,842</u>	<u>\$ 7,490,075</u>	<u>\$ 19,809,517</u>	<u>\$ 18,760,429</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the City, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$19,809,517 at the close of the most recent year. This amounts to \$11,654,675 in governmental activities and \$8,154,842 in business-type activities.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

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

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

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 69.4 percent of total governmental and business-type assets. Capital assets include land, construction in progress, land and land improvements, land use rights, land improvements, buildings and improvements, equipment and furniture, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2016, were \$17,789,522. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's governmental net position, \$2,736,391 or 23.5 percent, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net position, \$626,947 is restricted for capital projects, \$148,523 is restricted for debt service, \$22,547 is restricted for leisure, \$586,941 is restricted for transportation, \$751,367 is restricted for security persons and property and \$600,066 is restricted for other purposes. The remaining significant balance of governmental activities unrestricted net position is a deficit of \$2,626,574.

Table 2 below shows the changes in net position for governmental and business-type activities for year 2016 compared to 2015:

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

Table 2
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,942,665	\$ 2,857,672	\$ 2,320,994	\$ 2,483,740	\$ 5,263,659	\$ 5,341,412
Operating grants and contributions	845,838	986,855	17,573	-	863,411	986,855
Capital grants and contributions	180,000	447,684	313,499	-	493,499	447,684
General revenues:						
Income taxes	2,623,770	2,672,974	-	-	2,623,770	2,672,974
Property taxes	749,068	786,481	-	-	749,068	786,481
Payment in lieu of tax	160	37,692	-	-	160	37,692
Intergovernmental	161,709	160,324	-	-	161,709	160,324
Interest	77,662	39,687	-	-	77,662	39,687
Miscellaneous	157,429	61,391	-	-	157,429	61,391
Total revenues	<u>7,738,301</u>	<u>8,050,760</u>	<u>2,652,066</u>	<u>2,483,740</u>	<u>10,390,367</u>	<u>10,534,500</u>
Program Expenses						
Governmental Activities:						
General government	1,197,905	1,221,687	-	-	1,197,905	1,221,687
Security of persons and property:						
Police	1,696,386	1,608,701	-	-	1,696,386	1,608,701
Fire	1,938,260	1,796,415	-	-	1,938,260	1,796,415
Other	130,374	138,409	-	-	130,374	138,409
Economic development and assistance	73,599	60,706	-	-	73,599	60,706
Refuse	636,938	641,031	-	-	636,938	641,031
Leisure time activities	852,851	750,369	-	-	852,851	750,369
Transportation	730,743	1,220,096	-	-	730,743	1,220,096
Interest and fiscal charges	96,924	133,175	-	-	96,924	133,175
Business-type Activities:						
Water	-	-	1,782,547	1,720,728	1,782,547	1,720,728
Electric	-	-	204,752	179,302	204,752	179,302
Total program expenses	<u>7,353,980</u>	<u>7,570,589</u>	<u>1,987,299</u>	<u>1,900,030</u>	<u>9,341,279</u>	<u>9,470,619</u>
Change in net position before transfers						
	384,321	480,171	664,767	583,710	1,049,088	1,063,881
Transfers	-	37,500	-	(37,500)	-	-
Change in net position	384,321	517,671	664,767	546,210	1,049,088	1,063,881
Net position beginning of year	<u>11,270,354</u>	<u>10,752,683</u>	<u>7,490,075</u>	<u>6,943,865</u>	<u>18,760,429</u>	<u>17,696,548</u>
Net position end of year	<u>\$ 11,654,675</u>	<u>\$ 11,270,354</u>	<u>\$ 8,154,842</u>	<u>\$ 7,490,075</u>	<u>\$ 19,809,517</u>	<u>\$ 18,760,429</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

Governmental Activities

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounts for \$3,765,020 of expenses, or 51.2 percent of total governmental expenses of the City. These expenses were funded by \$1,358,906 in charges to users of services and operating grants. General government expenses, which primarily include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity; totaled \$1,197,905 or 16.3 percent of total governmental expenses. General government expenses were partially covered by \$585,895 of direct charges to users.

General revenues totaled \$3,769,798, and amounted to 48.7 percent of total revenues. These revenues primarily consist of property and income tax revenue of \$3,372,838, or 89.5 percent of total general revenues. The other primary source of general revenues is intergovernmental that are not restricted to specific programs, with a majority of the revenue being local government and local government revenue assistance. For 2016, these revenues totaled \$161,709 or 4.3 percent of the total general revenues.

The net position for the internal service fund increased \$107,035. This increase was mainly attributable to a decrease in claims expense from the prior year.

Business-type Activities

The water and electric funds represent the City's business-type activities. These programs have program revenues of \$2,652,066, and expenses of \$1,987,299, for the year ended December 31, 2016. Business-type activities had an increase in net position of \$664,767. For this year, the increase in net position was attributed to operating activities.

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

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

	2016	2015	2016	2015
	Governmental	Governmental	Business-Type	Business-Type
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Deferred outflows - pension	\$ 1,793,816	\$ 695,551	\$ 262,906	\$ 77,941
Deferred inflows - pension	(140,983)	(14,588)	(13,456)	(8,421)
Net pension liability	<u>(6,914,004)</u>	<u>(5,457,307)</u>	<u>(698,311)</u>	<u>(479,356)</u>
Impact of GASB 68 on net position	<u>\$ (5,261,171)</u>	<u>\$ (4,776,344)</u>	<u>\$ (448,861)</u>	<u>\$ (409,836)</u>

Financial Analysis of City Funds

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

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

As of December 31, 2016, the City's governmental funds reported a combined ending fund balance of \$5,905,807, an increase of \$1,733,422 in comparison with the prior year. \$2,136,619 of the ending combined fund balance for 2016 constitutes assigned and unassigned fund balance combined, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted, or committed to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints. A large portion of the fund balance, \$3,118,537, or 52.8 percent is restricted. These restricted amounts lead to restricted net position on the Statement of Net Position due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The general fund is the primary operating fund of the City. At the end of 2016, unassigned fund balance was \$2,116,714 while total fund balance was \$2,191,932. As a measure of the general fund's liquidity it may be useful to compare both, unassigned fund balance and total fund balance to total fund expenditures. The fund balance of the City's general fund increased by \$455,778 during 2016. This increase was due primarily from decreased expenditures from managements conservative spending.

Table 3 below reports year 2016 balances compared to 2015:

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

Table 3
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2016	December 31, 2015		
General	\$ 2,191,932	\$ 1,736,154	\$ 455,778	26.3%
Street maintenance	265,805	219,943	45,862	20.9%
Fire levy	547,321	461,249	86,072	18.7%
General obligation bond retirement	642	(35,319)	35,961	-101.8%
Capital improvement	1,384,453	297,886	1,086,567	-364.8%
Other governmental funds	1,515,654	1,492,472	23,182	1.6%
	<u>\$ 5,905,807</u>	<u>\$ 4,172,385</u>	<u>\$ 1,733,422</u>	

The street maintenance fund balance increased by \$45,862. The fire levy fund balance increased by \$86,072. Fund balance at December 31, 2016, was \$547,321 reporting \$1,627,854 in revenues and \$1,719,282 in expenditures. The general obligation bond retirement fund balance increased \$35,961 from 2015 to an ending fund balance of \$642. The capital improvement fund balance increased by \$1,086,567 to a fund balance of \$1,384,453. The issuance of notes was attributable to this increase. All other governmental funds fund balance increased by \$23,182 during 2016.

Table 4 below assists in illustrating the financial activities for the general fund of year 2016 balances compared to 2015:

Table 4
Change in Financial Activities for the General Fund

	December 31, 2016	December 31, 2015	Increase (Decrease)
<u>Revenues:</u>			
Income tax	\$ 2,176,855	\$ 2,240,788	\$ (63,933)
Property and other taxes	224,104	244,600	(20,496)
Charges for services	809,649	805,797	3,852
Licenses and permits	153,247	144,547	8,700
Fines and forfeitures	320,045	307,717	12,328
Intergovernmental	168,043	177,960	(9,917)
Investment income	77,662	39,687	37,975
Other	138,386	63,759	74,627
Total revenue	<u>\$ 4,067,991</u>	<u>\$ 4,024,855</u>	<u>\$ 43,136</u>
<u>Expenditures:</u>			
Current:			
General government	1,044,443	1,077,833	(33,390)
Security of persons and property:			
Police	1,162,411	1,176,473	(14,062)
Fire	29,680	-	29,680
Refuse	636,938	641,031	(4,093)
Transportation	-	1,148	(1,148)
Total expenditures	<u>\$ 2,873,472</u>	<u>\$ 2,896,485</u>	<u>\$ (23,013)</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

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

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

As of December 31, 2016, unrestricted net position in the self-insurance program was \$156,990.

Budgetary Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2016 the City amended its general fund budget on various occasions. All recommendations for budget changes come to the Finance Committee of City Council for review before going to the whole Council for ordinance enactment on the change. The City allows small interdepartmental budget changes that modify line items within departments within the same fund. The general fund supports many of the City's major activities such as the Police Department as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The general fund original budgeted revenue was increased by \$681,921 during the year due to anticipated additional revenues being received later in the year. The actual revenue received during the year was \$229,609 or 4.8 percent less than the final estimate.

The general fund original budgeted expenditures were less than the final budgeted expenditures by \$91,210. There were no individually significant events that led to these differences. Actual expenditures, plus encumbrances for the year were \$151,394 less than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets - At the end of 2016, the City had \$23,899,632 (net of accumulated depreciation) invested in land, land use rights, land improvements, buildings and improvements, equipment and furniture, vehicles, infrastructure and construction in progress. Of this total \$16,689,578 was reported in governmental activities and \$7,210,054 was reported in business-type activities.

Table 5 shows fiscal year 2016 balances compared to 2015.

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

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 6,143,390	\$ 6,143,390	\$ 30,000	\$ 30,000	\$ 6,173,390	\$ 6,173,390
Land use rights	49,687	49,687	-	-	49,687	49,687
Construction in progress	727,135	123,718	141,801	63,613	868,936	187,331
Land improvements	3,689,961	3,859,094	27,438	34,970	3,717,399	3,894,064
Buildings and improvements	1,957,157	2,029,142	1,588,260	1,646,016	3,545,417	3,675,158
Equipment and furniture	408,348	360,451	1,462,554	1,411,616	1,870,902	1,772,067
Vehicles	707,918	623,642	72,373	86,156	780,291	709,798
Infrastructure	<u>3,005,982</u>	<u>3,026,016</u>	<u>3,887,628</u>	<u>3,672,827</u>	<u>6,893,610</u>	<u>6,698,843</u>
Total	<u>\$ 16,689,578</u>	<u>\$ 16,215,140</u>	<u>\$ 7,210,054</u>	<u>\$ 6,945,198</u>	<u>\$ 23,899,632</u>	<u>\$ 23,160,338</u>

For governmental activities capital additions were offset by \$567,047 of accumulated depreciation. Depreciation expense for business-type activities was \$235,394. In 2016 the most significant increases were in infrastructure and construction in progress for ongoing construction projects.

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

Long-Term Debt - At December 31, 2016 the City had total long-term debt outstanding of \$6,917,843. Of this total, \$631,746 is due within one year and \$6,286,097 is due in more than one year. Table 6 below summarizes the bonds and loans outstanding:

Table 6
Outstanding Debt, at December 31

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 2,265,655	\$ 2,567,786	\$ 713,761	\$ 835,895	\$ 2,979,416	\$ 3,403,681
Notes	3,303,000	1,928,000	-	-	3,303,000	1,928,000
OWDA loan	-	-	212,803	415,187	212,803	415,187
Lease-purchase loan	116,346	143,419	-	-	116,346	143,419
Capital leases	<u>267,452</u>	<u>166,126</u>	<u>38,826</u>	<u>147,594</u>	<u>306,278</u>	<u>313,720</u>
Total	<u>\$ 5,952,453</u>	<u>\$ 4,805,331</u>	<u>\$ 965,390</u>	<u>\$ 1,398,676</u>	<u>\$ 6,917,843</u>	<u>\$ 6,204,007</u>

At December 31, 2016 the City's overall legal debt margin was \$17,383,246, with an unvoted debt margin of \$7,541,199. The City's credit rating remained unchanged in 2016 as compared to 2015.

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Unaudited

Economic Factors

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

Requests for Information

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

City of Huron, Ohio
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 5,614,665	\$ 1,691,122	\$ 7,305,787
Cash and cash equivalents in segregated accounts	209,682	-	209,682
<u>Receivables:</u>			
Income tax	364,933	-	364,933
Property and other taxes	825,084	-	825,084
Accounts	239,957	505,622	745,579
Special assessments	162,349	30,101	192,450
Accrued interest	10,906	-	10,906
Intergovernmental	417,449	171,321	588,770
Materials and supplies inventory	11,070	126,876	137,946
Land held for resale	105,286	-	105,286
Prepaid items	31,517	13,268	44,785
Nondepreciable capital assets	6,920,212	171,801	7,092,013
Depreciable capital assets, net	9,769,366	7,038,253	16,807,619
Total assets	<u>24,682,476</u>	<u>9,748,364</u>	<u>34,430,840</u>
<u>Deferred outflows of resources:</u>			
Pension	<u>1,793,816</u>	<u>262,906</u>	<u>2,056,722</u>
<u>Liabilities:</u>			
Accounts payable	115,410	44,950	160,360
Contracts payable	54,367	7,367	61,734
Accrued wages and benefits	108,263	20,009	128,272
Pension obligation payable	69,377	11,093	80,470
Due to other governments	16,134	862	16,996
Income tax refunds payable	22,320	-	22,320
Accrued interest payable	21,326	1,178	22,504
Claims payable	9,706	-	9,706
Notes payable	105,286	-	105,286
<u>Long-term liabilities:</u>			
Due within one year	562,802	293,739	856,541
Due in more than one year:			
Net pension liability	6,914,004	698,311	7,612,315
Other amounts due in more than one year	5,899,692	765,463	6,665,155
Total liabilities	<u>13,898,687</u>	<u>1,842,972</u>	<u>15,741,659</u>
<u>Deferred inflows of resources:</u>			
Property taxes	781,947	-	781,947
Pension	140,983	13,456	154,439
Total deferred inflows of resources	<u>922,930</u>	<u>13,456</u>	<u>936,386</u>
<u>Net position:</u>			
Net investment in capital assets	11,544,858	6,244,664	17,789,522
<u>Restricted for:</u>			
Capital projects	626,947	-	626,947
Debt service	148,523	-	148,523
Transportation	586,941	-	586,941
Security of persons and property	751,367	-	751,367
Leisure time activities	22,547	-	22,547
Other purposes	600,066	-	600,066
Unrestricted	<u>(2,626,574)</u>	<u>1,910,178</u>	<u>(716,396)</u>
Total net position	<u>\$ 11,654,675</u>	<u>\$ 8,154,842</u>	<u>\$ 19,809,517</u>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,197,905	\$ 585,895	\$ -	\$ -
Security of persons and property:				
Police	1,696,386	18,783	93,455	-
Fire	1,938,260	1,019,046	84,888	-
Other	130,374	142,734	-	-
Leisure time activities	852,851	378,202	151,662	180,000
Economic development and assistance	73,599	350	-	-
Transportation	730,743	15,306	515,833	-
Refuse	636,938	782,349	-	-
Interest and fiscal charges	96,924	-	-	-
Total governmental activities	<u>7,353,980</u>	<u>2,942,665</u>	<u>845,838</u>	<u>180,000</u>
<u>Business-Type Activities:</u>				
Water	1,782,547	2,112,380	17,573	313,499
Electric	204,752	208,614	-	-
Total business-type activities	<u>1,987,299</u>	<u>2,320,994</u>	<u>17,573</u>	<u>313,499</u>
Total primary government	<u>\$ 9,341,279</u>	<u>\$ 5,263,659</u>	<u>\$ 863,411</u>	<u>\$ 493,499</u>

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

Change in net position

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (612,010)	\$ -	\$ (612,010)
(1,584,148)	-	(1,584,148)
(834,326)	-	(834,326)
12,360	-	12,360
(142,987)	-	(142,987)
(73,249)	-	(73,249)
(199,604)	-	(199,604)
145,411	-	145,411
(96,924)	-	(96,924)
<u>(3,385,477)</u>	<u>-</u>	<u>(3,385,477)</u>
-	660,905	660,905
-	3,862	3,862
<u>-</u>	<u>664,767</u>	<u>664,767</u>
<u>(3,385,477)</u>	<u>664,767</u>	<u>(2,720,710)</u>
222,880	-	222,880
526,188	-	526,188
2,022,469	-	2,022,469
206,301	-	206,301
395,000	-	395,000
160	-	160
161,709	-	161,709
77,662	-	77,662
157,429	-	157,429
<u>3,769,798</u>	<u>-</u>	<u>3,769,798</u>
384,321	664,767	1,049,088
<u>11,270,354</u>	<u>7,490,075</u>	<u>18,760,429</u>
<u>\$ 11,654,675</u>	<u>\$ 8,154,842</u>	<u>\$ 19,809,517</u>

City of Huron, Ohio

Balance Sheet

Governmental Funds

December 31, 2016

	General	Street Maintenance	Fire Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:							
Equity in pooled cash and cash equivalents	\$ 1,975,730	\$ 200,354	\$ 469,496	\$ 642	\$ 1,434,320	\$ 1,457,982	\$ 5,538,524
Cash and cash equivalents:							
In segregated accounts	-	-	-	-	-	115,612	115,612
Receivables:							
Income tax	364,933	-	-	-	-	-	364,933
Property and other taxes	243,380	-	494,787	-	-	86,917	825,084
Accounts	39,263	16	200,678	-	-	-	239,957
Special assessments	-	-	-	162,349	-	-	162,349
Accrued interest	10,426	-	-	-	-	480	10,906
Intergovernmental	104,526	246,270	36,523	-	-	30,130	417,449
Materials and supplies inventory	-	11,070	-	-	-	-	11,070
Prepaid items	11,225	2,288	11,141	-	-	6,863	31,517
Land held for resale	-	-	-	-	-	105,286	105,286
Total assets	<u>\$ 2,749,483</u>	<u>\$ 459,998</u>	<u>\$ 1,212,625</u>	<u>\$ 162,991</u>	<u>\$ 1,434,320</u>	<u>\$ 1,803,270</u>	<u>\$ 7,822,687</u>
Liabilities, deferred inflows of resources and fund balances:							
Liabilities:							
Accounts payable	\$ 79,230	\$ 12,762	\$ 8,115	\$ -	\$ 850	\$ 12,755	\$ 113,712
Contracts payable	-	5,350	-	-	49,017	-	54,367
Accrued wages and benefits	48,737	6,329	43,402	-	-	8,107	106,575
Pension obligation payable	10,625	4,021	3,073	-	-	51,578	69,297
Due to other governments	13,813	276	1,711	-	-	285	16,085
Income tax refunds payable	22,320	-	-	-	-	-	22,320
Notes payable	-	-	-	-	-	105,286	105,286
Total liabilities	<u>174,725</u>	<u>28,738</u>	<u>56,301</u>	<u>-</u>	<u>49,867</u>	<u>178,011</u>	<u>487,642</u>
Deferred inflows of resources:							
Property taxes	230,592	-	469,007	-	-	82,348	781,947
Unavailable revenue	148,154	165,455	131,656	162,349	-	25,800	633,414
Unavailable revenue - delinquent property taxes	4,080	-	8,340	-	-	1,457	13,877
Total deferred inflows of resources	<u>382,826</u>	<u>165,455</u>	<u>609,003</u>	<u>162,349</u>	<u>-</u>	<u>109,605</u>	<u>1,429,238</u>
Fund balances:							
Nonspendable	11,225	13,358	11,141	-	-	6,863	42,587
Restricted	-	252,447	536,180	642	1,384,453	944,815	3,118,537
Committed	44,088	-	-	-	-	563,976	608,064
Assigned	19,905	-	-	-	-	-	19,905
Unassigned	2,116,714	-	-	-	-	-	2,116,714
Total fund balances	<u>2,191,932</u>	<u>265,805</u>	<u>547,321</u>	<u>642</u>	<u>1,384,453</u>	<u>1,515,654</u>	<u>5,905,807</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,749,483</u>	<u>\$ 459,998</u>	<u>\$ 1,212,625</u>	<u>\$ 162,991</u>	<u>\$ 1,434,320</u>	<u>\$ 1,803,270</u>	<u>\$ 7,822,687</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2016**

Total governmental fund balances \$ 5,905,807

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds. 16,689,578

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 156,990

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

Property and other taxes	\$ 13,877	
Income taxes	67,091	
Intergovernmental	289,255	
Special assessments	162,349	
Charges for services	95,676	
Other	19,043	
Total	647,291	647,291

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

Deferred outflows - pension	\$ 1,793,816	
Deferred inflows - pension	(140,983)	
Net pension liability	(6,914,004)	
Total	(5,261,171)	(5,261,171)

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. (21,326)

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

General obligation bonds	\$ (2,247,800)	
Long-term notes	(3,303,000)	
Unamortized premium on bonds	(17,855)	
Capital lease payable	(267,452)	
Lease-purchase loan	(116,346)	
Compensated absences	(510,041)	
Total	(6,462,494)	(6,462,494)

Net position of governmental activities \$ 11,654,675

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2016

	General	Street Maintenance	Fire Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:							
Income tax	\$ 2,176,855	\$ -	\$ -	\$ 395,000	\$ 206,301	\$ -	\$ 2,778,156
Property and other taxes	224,104	-	450,938	-	-	78,115	753,157
Charges for services	809,649	666	1,101,954	-	-	341,159	2,253,428
Licenses and permits	153,247	-	-	-	-	-	153,247
Fines and forfeitures	320,045	-	-	-	-	90,482	410,527
Intergovernmental	168,043	498,373	73,319	-	180,000	230,830	1,150,565
Special assessments	-	-	-	15,468	-	142,734	158,202
Investment income	77,662	-	-	-	-	2,071	79,733
Payment in lieu of tax	-	-	-	-	-	27,166	27,166
Other	138,386	13,497	1,643	-	-	86,685	240,211
Total revenue	4,067,991	512,536	1,627,854	410,468	386,301	999,242	8,004,392
Expenditures:							
Current:							
General government	1,044,443	-	-	10,803	7,400	67,180	1,129,826
Security of persons and property:							
Police	1,162,411	-	-	-	-	279,635	1,442,046
Fire	29,680	-	1,719,282	-	180	4,171	1,753,313
Other	-	-	-	-	-	130,309	130,309
Transportation	-	415,574	-	-	4,919	35,145	455,638
Refuse	636,938	-	-	-	-	-	636,938
Leisure time activities	-	-	-	-	6,225	649,482	655,707
Economic development and assistance	-	-	-	-	-	73,599	73,599
Capital outlay	-	7,100	-	-	728,543	315,501	1,051,144
Debt service:							
Principal retirement	-	-	-	2,224,400	174,086	20,654	2,419,140
Interest and fiscal charges	-	-	-	82,604	11,873	826	95,303
Total expenditures	2,873,472	422,674	1,719,282	2,317,807	933,226	1,576,502	9,842,963
Excess of revenues over (under) expenditures	1,194,519	89,862	(91,428)	(1,907,339)	(546,925)	(577,260)	(1,838,571)
Other financing sources (uses):							
Notes issued	-	-	-	1,928,000	1,375,000	-	3,303,000
Inception of capital lease	-	-	-	-	58,492	210,501	268,993
Transfers - in	-	-	200,000	15,300	200,000	495,921	911,221
Transfers - out	(738,741)	(44,000)	(22,500)	-	-	(105,980)	(911,221)
Total other financing sources (uses)	(738,741)	(44,000)	177,500	1,943,300	1,633,492	600,442	3,571,993
Net change in fund balance	455,778	45,862	86,072	35,961	1,086,567	23,182	1,733,422
Fund balances at beginning of year	1,736,154	219,943	461,249	(35,319)	297,886	1,492,472	4,172,385
Fund balances at end of year	\$ 2,191,932	\$ 265,805	\$ 547,321	\$ 642	\$ 1,384,453	\$ 1,515,654	\$ 5,905,807

See accompanying notes to the basic financial statements.

City of Huron, Ohio

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

Net change in fund balances - Total governmental funds		\$ 1,733,422
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Capital outlay	\$ 1,051,144	
Depreciation expense	(567,047)	
Excess of capital outlay over depreciation expense		484,097
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(9,659)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
Property and other taxes	\$ (4,089)	
Income taxes	(154,386)	
Payment in lieu of taxes	(27,006)	
Intergovernmental	1,193	
Special assessments	(15,468)	
Charges for services	(85,378)	
Other	19,043	
Net change in deferred inflows of resources during the year		(266,091)
Contractually required pension contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows.		
		429,396
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(914,223)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences	\$ (25,182)	
Increase in accrued interest	(7,352)	
Total additional expenditures		(32,534)
The internal service fund used by management to charge the costs of dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		
		107,035
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		2,224,400
Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		194,740
Some capital additions were financed through a loan and a capital lease. In governmental funds, loans and capital lease arrangements are considered a source of financing, but in the the statement of net position, the these obligations are reported as a liability.		
		(268,993)
The issuance of bonds and notes resulted in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net assets as liabilities.		
		(3,303,000)
The amortization of bond premium is reflected as an expense in the statement of activities.		
		5,731
Change in net position of governmental activities		<u>\$ 384,321</u>

City of Huron, Ohio

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 2,628,750	\$ 3,106,342	\$ 2,894,849	\$ (211,493)
Property and other taxes	239,639	244,594	244,574	(20)
Charges for services	807,600	813,284	809,408	(3,876)
Licenses and permits	127,700	157,327	152,651	(4,676)
Fines and forfeitures	304,500	322,000	320,045	(1,955)
Intergovernmental	167,861	177,367	171,470	(5,897)
Investment income	20,000	54,147	56,080	1,933
Other	36,700	139,610	135,985	(3,625)
Total revenue	<u>4,332,750</u>	<u>5,014,671</u>	<u>4,785,062</u>	<u>(229,609)</u>
<u>Expenditures:</u>				
Current:				
General government	1,083,682	1,109,432	1,018,029	91,403
Security of persons and property:				
Police	1,238,947	1,241,115	1,181,742	59,373
Basic utility services	636,056	637,556	636,938	618
Total expenditures	<u>2,958,685</u>	<u>2,988,103</u>	<u>2,836,709</u>	<u>151,394</u>
Excess of revenues over expenditures	<u>1,374,065</u>	<u>2,026,568</u>	<u>1,948,353</u>	<u>(78,215)</u>
<u>Other financing uses:</u>				
Transfers - out	<u>(1,338,050)</u>	<u>(1,399,842)</u>	<u>(1,399,842)</u>	<u>-</u>
Net change in fund balance	36,015	626,726	548,511	(78,215)
Fund balance at beginning of year	1,310,710	1,310,710	1,310,710	-
Prior year encumbrances appropriated	<u>31,800</u>	<u>31,800</u>	<u>31,800</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,378,525</u>	<u>\$ 1,969,236</u>	<u>\$ 1,891,021</u>	<u>\$ (78,215)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance Fund
For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final Budget		
<u>Revenues:</u>				
Charges for services	\$ 2,000	\$ 2,000	\$ 650	\$ (1,350)
Intergovernmental	480,000	494,775	494,619	(156)
Investment income	2,000	2,000	-	(2,000)
Other	7,500	13,497	13,497	-
Total revenue	<u>491,500</u>	<u>512,272</u>	<u>508,766</u>	<u>(3,506)</u>
<u>Expenditures:</u>				
Current:				
Transportation	<u>520,908</u>	<u>520,908</u>	<u>452,476</u>	<u>68,432</u>
Excess of revenues over (under) expenditures	<u>(29,408)</u>	<u>(8,636)</u>	<u>56,290</u>	<u>64,926</u>
<u>Other financing uses:</u>				
Transfers - out	<u>(6,700)</u>	<u>(54,805)</u>	<u>(54,805)</u>	<u>-</u>
Net change in fund balance	(36,108)	(63,441)	1,485	64,926
Fund balance at beginning of year	110,675	110,675	110,675	-
Prior year encumbrances appropriated	<u>39,324</u>	<u>39,324</u>	<u>39,324</u>	<u>-</u>
Fund balance at end of year	<u>\$ 113,891</u>	<u>\$ 86,558</u>	<u>\$ 151,484</u>	<u>\$ 64,926</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2016**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 487,792	\$ 492,481	\$ 492,504	\$ 23
Charges for services	865,530	1,099,696	1,078,899	(20,797)
Intergovernmental	72,000	73,319	73,319	-
Other	-	1,643	1,643	-
Total revenue	<u>1,425,322</u>	<u>1,667,139</u>	<u>1,646,365</u>	<u>(20,774)</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>1,516,059</u>	<u>1,542,059</u>	<u>1,491,357</u>	<u>50,702</u>
Excess of revenues over (under) expenditures	<u>(90,737)</u>	<u>125,080</u>	<u>155,008</u>	<u>29,928</u>
<u>Other financing sources (uses):</u>				
Transfers - in	200,000	200,000	200,000	-
Transfers - out	<u>(246,000)</u>	<u>(246,000)</u>	<u>(246,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(46,000)</u>	<u>(46,000)</u>	<u>(46,000)</u>	<u>-</u>
Net change in fund balance	(136,737)	79,080	109,008	29,928
Fund balance at beginning of year	329,759	329,759	329,759	-
Prior year encumbrances appropriated	<u>21,885</u>	<u>21,885</u>	<u>21,885</u>	<u>-</u>
Fund balance at end of year	<u>\$ 214,907</u>	<u>\$ 430,724</u>	<u>\$ 460,652</u>	<u>\$ 29,928</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2016

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Electric	Total	Activities Internal Service
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 1,505,246	\$ 185,876	\$ 1,691,122	\$ 76,141
Cash and cash equivalents:				
In segregated accounts	-	-	-	94,070
Receivables:				
Accounts	505,622	-	505,622	-
Special assessments	30,101	-	30,101	-
Intergovernmental receivable	171,321	-	171,321	-
Materials and supplies inventory	126,876	-	126,876	-
Prepaid items	13,268	-	13,268	-
Total current assets	2,352,434	185,876	2,538,310	170,211
Noncurrent assets:				
Capital assets:				
Nondepreciable capital assets	171,801	-	171,801	-
Depreciable capital assets, net	6,931,842	106,411	7,038,253	-
Total noncurrent assets	7,103,643	106,411	7,210,054	-
Total assets	9,456,077	292,287	9,748,364	\$ 170,211
<u>Deferred outflows of resources:</u>				
Pension	257,600	5,306	262,906	-
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	28,999	15,951	44,950	1,698
Contracts payable	7,367	-	7,367	-
Accrued wages and benefits	19,623	386	20,009	1,688
Accrued pension	10,845	248	11,093	80
Due to other governments	862	-	862	49
Compensated absences payable	34,466	296	34,762	-
Accrued interest payable	1,178	-	1,178	-
Claims payable	-	-	-	9,706
Capital lease payable	38,826	-	38,826	-
OWDA loans payable	99,351	-	99,351	-
General obligation bonds payable	120,800	-	120,800	-
Total current liabilities	362,317	16,881	379,198	13,221
Long-term liabilities:				
Compensated absences payable	59,050	-	59,050	-
OWDA loans payable, net of current portion	113,452	-	113,452	-
General obligation bonds payable, net of current portion	592,961	-	592,961	-
Net pension liability	683,454	14,857	698,311	-
Total long-term liabilities	1,448,917	14,857	1,463,774	-
Total liabilities	1,811,234	31,738	1,842,972	13,221
<u>Deferred inflows of resources:</u>				
Pension	13,171	285	13,456	-
<u>Net position:</u>				
Net investment in capital assets	6,138,253	106,411	6,244,664	-
Unrestricted	1,751,019	159,159	1,910,178	156,990
Total net position	\$ 7,889,272	\$ 265,570	\$ 8,154,842	\$ 156,990

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2016

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<u>Activities</u> <u>Internal Service</u>
<u>Operating revenues:</u>				
Charges for services	\$ 2,109,083	\$ 208,614	\$ 2,317,697	\$ 801,321
Other	3,297	-	3,297	250,217
Total operating revenue	<u>2,112,380</u>	<u>208,614</u>	<u>2,320,994</u>	<u>1,051,538</u>
<u>Operating expenses:</u>				
Personal services	659,140	13,555	672,695	54,175
Fringe benefits	264,267	5,210	269,477	10,466
Contractual services	383,267	182,012	565,279	524,174
Supplies and materials	199,187	-	199,187	-
Claims	-	-	-	311,625
Other operating costs	5,835	-	5,835	44,063
Depreciation	231,419	3,975	235,394	-
Total operating expenses	<u>1,743,115</u>	<u>204,752</u>	<u>1,947,867</u>	<u>944,503</u>
Operating income	<u>369,265</u>	<u>3,862</u>	<u>373,127</u>	<u>107,035</u>
<u>Nonoperating revenue (expenses):</u>				
Intergovernmental	331,072	-	331,072	-
Interest and fiscal charges	(39,332)	-	(39,332)	-
Loss on disposal of capital assets	(100)	-	(100)	-
Total nonoperating revenues (expenses)	<u>291,640</u>	<u>-</u>	<u>291,640</u>	<u>-</u>
Change in net position	660,905	3,862	664,767	107,035
Net position at beginning of year	<u>7,228,367</u>	<u>261,708</u>	<u>7,490,075</u>	<u>49,955</u>
Net position at end of year	<u>\$ 7,889,272</u>	<u>\$ 265,570</u>	<u>\$ 8,154,842</u>	<u>\$ 156,990</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Electric	Total	Activities Internal Service
Cash flows from operating activities:				
Cash received from customers	\$ 2,128,968	\$ 208,614	\$ 2,337,582	\$ 1,051,538
Cash payments for personal services	(868,680)	(17,515)	(886,195)	(65,914)
Cash payments for contractual services	(251,939)	(166,061)	(418,000)	(566,539)
Cash payments to suppliers for goods and services	(333,270)	-	(333,270)	-
Cash payments for claims	-	-	-	(463,574)
Net cash provided by (used for) operating activities	<u>675,079</u>	<u>25,038</u>	<u>700,117</u>	<u>(44,489)</u>
Cash flows from noncapital financing activities:				
Cash payments from subsidy	9,751	-	9,751	-
Net cash provided by noncapital financing activities	<u>9,751</u>	<u>-</u>	<u>9,751</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Subsidy from state and federal grants	150,000	-	150,000	-
Interest paid on bonds, loans and leases	(43,064)	-	(43,064)	-
Principal payment on bonds, loans and leases	(429,752)	-	(429,752)	-
Acquisition of capital assets	(500,350)	-	(500,350)	-
Net cash used for capital and related financing activities	<u>(823,166)</u>	<u>-</u>	<u>(823,166)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(138,336)	25,038	(113,298)	(44,489)
Cash and cash equivalents at beginning of year	1,643,582	160,838	1,804,420	214,700
Cash and cash equivalents at end of year	<u>\$ 1,505,246</u>	<u>\$ 185,876</u>	<u>\$ 1,691,122</u>	<u>\$ 170,211</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income	\$ 369,265	\$ 3,862	\$ 373,127	\$ 107,035
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	231,419	3,975	235,394	-
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	13,087	-	13,087	-
Special assessments receivable	3,501	-	3,501	-
Materials and supplies inventory	(3,888)	-	(3,888)	-
Prepaid items	1,033	-	1,033	-
Increase in deferred outflows of resources - pension	(181,363)	(3,602)	(184,965)	-
Increase (decrease) in liabilities:				
Accounts payable	(1,030)	15,951	14,921	1,698
Contracts payable	7,367	-	7,367	-
Claims payable	-	-	-	(151,949)
Accrued pension	8,231	199	8,430	(250)
Accrued wages and benefits	949	38	987	(671)
Compensated absences	10,314	217	10,531	-
Due to other governments	(3,316)	(82)	(3,398)	(352)
Net pension liability	214,576	4,379	218,955	-
Increase in deferred inflows of resources - pension	4,934	101	5,035	-
Net cash provided by (used for) operating activities	<u>\$ 675,079</u>	<u>\$ 25,038</u>	<u>\$ 700,117</u>	<u>\$ (44,489)</u>

See accompanying notes to the basic financial statements.

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

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 44,904
Cash and cash equivalents in segregated accounts	<u>9,728</u>
Total assets	<u><u>\$ 54,632</u></u>
<u>Liabilities:</u>	
Accounts payable	\$ 794
Due to other governments	9,728
Undistributed monies	<u>44,110</u>
Total liabilities	<u><u>\$ 54,632</u></u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

NOTE 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

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

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

C. Fund Accounting

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

Street Maintenance Fund This fund is used to account for gasoline tax, motor vehicle license fees and various other miscellaneous charges remitted to the City restricted for routine maintenance of City streets.

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

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

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

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

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the resources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

E. Basis of Accounting

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Nonexchange transactions are transactions in which the City receives value without directly giving equal value in return, including income taxes, estate taxes, motel-hotel taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenues. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 12)

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

F. Budgetary Data

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

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

Estimated Resources – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the first and final amended official certificate of estimated resources issued during 2016.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

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

G. Cash and Cash Equivalents

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

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

H. Materials and Supplies Inventory

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

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

Inventory consists of expendable supplies held for consumption.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

I. Capital Assets

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

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

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

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

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2016, interest costs incurred on construction projects were not material.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

J. Net pension liability and pension expense

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

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

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

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

K. Compensated Absences

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2016. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those employees the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Transactions

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

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

N. Fund Balance

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

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances). Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council. In addition, the Director of Finance is authorized to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water, electric, and self-insurance program. Operating expenses are necessary costs incurred to provide the goods and services that is the primary activity of the fund.

P. Net Position

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

Q. Estimates

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

R. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the in the year in which it was consumed.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

NOTE 2 – Budgetary Basis of Accounting

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

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

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

	Net Change in Fund Balances		
	General	Street	Fire Levy
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
GAAP basis	\$ 455,778	\$ 45,862	\$ 86,072
Revenue accruals	717,071	(3,770)	18,511
Expense accruals	(597,688)	8,264	13,269
Encumbrances (budget basis) outstanding at year end	<u>(26,650)</u>	<u>(48,871)</u>	<u>(8,844)</u>
Budget basis	<u>\$ 548,511</u>	<u>\$ 1,485</u>	<u>\$ 109,008</u>

NOTE 3 – Fund Balance

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Fund Balances	General	Street Maintenance	Fire Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>							
Materials and supplies inventory	\$ -	\$ 11,070	\$ -	\$ -	\$ -	\$ -	\$ 11,070
Prepays	11,225	2,288	11,141	-	-	6,863	31,517
Total nonspendable	11,225	13,358	11,141	-	-	6,863	42,587
<u>Restricted for</u>							
Streets and highways	-	252,447	-	-	-	164,249	416,696
Economic development	-	-	-	-	-	13,809	13,809
Recreation	-	-	-	-	-	22,547	22,547
Fire and EMS services	-	-	536,180	-	-	139,142	675,322
Capital improvements	-	-	-	-	1,384,453	57,085	1,441,538
Marine patrol	-	-	-	-	-	1,909	1,909
Debt service payments	-	-	-	642	-	-	642
Court activities	-	-	-	-	-	474,968	474,968
Police services	-	-	-	-	-	71,106	71,106
Total restricted	-	252,447	536,180	642	1,384,453	944,815	3,118,537
<u>Committed</u>							
Recreation	-	-	-	-	-	144,143	144,143
Capital improvements	-	-	-	-	-	419,833	419,833
Employee retirements	44,088	-	-	-	-	-	44,088
Total committed	44,088	-	-	-	-	563,976	608,064
<u>Assigned</u>							
Encumbrances	19,905	-	-	-	-	-	19,905
Unassigned	2,116,714	-	-	-	-	-	2,116,714
Total fund balances	\$ 2,191,932	\$ 265,805	\$ 547,321	\$ 642	\$ 1,384,453	\$ 1,515,654	\$ 5,905,807

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

NOTE 4 – Deposits and Investments

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

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

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

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

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

During 2016, investments were limited to certificates of deposit.

A. Undeposited Cash

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

B. Deposits

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

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

As of December 31, the carrying amount of the City's deposits was \$4,724,045 and the bank balance was \$4,621,230. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2016, none of the City's bank balance was exposed to custodial credit risk as described above.

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

C. Investments

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

Investment Type	Fair Value	Percentage of Investment	Maturity		
			< 1 year	< 2 years	< 3-5 years
Negotiable certificates of deposits:					
BMW Bank NA UT US	\$ 252,500	8.88%			252,500
Boston Prvt B & T Co	200,126	7.04%	200,126		
Capital One BK VA US	295,714	10.40%			295,714
CIT Bank US	244,632	8.60%	143,062		101,570
Comenity Bank DE US	198,888	7.00%			198,888
Discover Bank DE US	151,941	5.34%			151,941
Goldman Sachs Bank US	201,667	7.09%		100,418	101,249
HSBC Bank USA NA VA US	239,431	8.42%			239,431
Synchrony BK UT US	139,750	4.92%			139,750
Wells Fargo BK NA SD US	195,202	6.87%			195,202
World's Foremost B NE US	199,546	7.02%			199,546
All other certificates of deposits	523,574	18.42%			523,574
	<u>\$ 2,842,971</u>		<u>\$ 343,188</u>	<u>\$ 100,418</u>	<u>\$ 2,399,365</u>

(1) All negotiable CDs were fully insured by FDIC and their credit ratings were not available.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The preceding table identifies the City's recurring fair value measurement as of December 31, 2016. All investments of the City are valued using quoted market prices (Level 1 inputs).

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

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

Concentration of credit risk is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. The table above lists the CDs that are individually greater than 5% per issuer, all other CDs total 18.42% of the City investments but per issuer are individually less than 5% of the City's investments. Investments are in fully insured negotiable CDs making up 100% of all investments. The City's policy places no limit on the amount that may be invested in any one issuer.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$77,662, which includes \$58,611 assigned from other City funds.

NOTE 5 – Taxes

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of the 2015 taxes. Property tax payments received during 2016 for tangible personal property (other than public utility property) is for 2016 taxes.

2016 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2016 public utility property taxes became a lien December 31, 2014, are levied after October 1, 2015, and are collected with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2016 was \$4.9 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
<u>Real property</u>		
Residential and agricultural	\$ 170,505,000	86.6%
Commercial and industrial	22,224,870	11.3%
Public Utilities	221,910	0.1%
<u>Tangible personal property</u>		
Public Utilities	<u>3,889,150</u>	<u>2.0%</u>
Total	<u>\$ 196,840,930</u>	<u>100.0%</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

B. Income Taxes

The City levies a municipal income tax of one percent on substantially all income earned within the City: in addition, residents are required to pay tax on income earned outside of the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual tax payers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purpose of general municipal operations, maintenance, new equipment, extension, and enlargement of municipal services and facilities and capital improvements of the City. In 2016, the proceeds were allocated to the general, general obligation bond retirement and capital improvement funds.

NOTE 6 – Receivables

Receivables at December 31, 2016 consisted of taxes, accounts (billing for user charged services), due from other governments (intergovernmental), special assessments and interest on investments. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items due from other governments (intergovernmental) follows:

	Governmental <u>Activities</u>
Due from other governments:	
Local government funding	\$ 52,779
Homestead and rollbacks	61,142
Gas and motor vehicle taxes	259,333
Grants	10,586
Other	<u>33,609</u>
Total	<u>\$ 417,449</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

NOTE 7 – Capital Assets

Governmental Activities A summary of the governmental activities’ capital asset activity as of December 31, 2016 are as follows:

<u>Governmental activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 6,143,390	\$ -	\$ -	\$ 6,143,390
Land use rights	49,687	-	-	49,687
Construction in progress	<u>123,718</u>	<u>603,417</u>	<u>-</u>	<u>727,135</u>
Total capital assets, not being depreciated	<u>6,316,795</u>	<u>603,417</u>	<u>-</u>	<u>6,920,212</u>
Capital assets, being depreciated:				
Land improvements	6,326,710	86,677	-	6,413,387
Buildings and improvements	3,324,086	-	-	3,324,086
Equipment and furniture	1,452,254	99,647	(83,790)	1,468,111
Vehicles	2,125,041	224,364	(309,395)	2,040,010
Infrastructure	<u>3,156,785</u>	<u>37,039</u>	<u>-</u>	<u>3,193,824</u>
Total capital assets, being depreciated	<u>16,384,876</u>	<u>447,727</u>	<u>(393,185)</u>	<u>16,439,418</u>
Less accumulated depreciation:				
Land improvements	(2,467,616)	(255,810)	-	(2,723,426)
Buildings and improvements	(1,294,944)	(71,985)	-	(1,366,929)
Equipment and furniture	(1,091,803)	(42,091)	74,131	(1,059,763)
Vehicles	(1,501,399)	(140,088)	309,395	(1,332,092)
Infrastructure	<u>(130,769)</u>	<u>(57,073)</u>	<u>-</u>	<u>(187,842)</u>
Total accumulated depreciation	<u>(6,486,531)</u>	<u>(567,047)</u>	<u>383,526</u>	<u>(6,670,052)</u>
Total capital assets being depreciated, net	<u>9,898,345</u>	<u>(119,320)</u>	<u>(9,659)</u>	<u>9,769,366</u>
Governmental activities capital assets, net	<u>\$ 16,215,140</u>	<u>\$ 484,097</u>	<u>\$ (9,659)</u>	<u>\$ 16,689,578</u>

Depreciation Expense Depreciation expense charged to governmental functions for the year ending December 31, 2016 is as follows:

	<u>Amount</u>
General government	\$ 43,910
Security of persons and property:	
Police	35,233
Fire	43,989
Leisure time activities	176,223
Transportation	<u>267,692</u>
Total governmental activities depreciation expense	<u>\$ 567,047</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Business-Type Activities A summary of the business-type activities' capital assets as of December 31, 2016 are as follows:

<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	<u>63,613</u>	<u>401,243</u>	<u>(323,055)</u>	<u>141,801</u>
Total capital assets, not being depreciated	<u>93,613</u>	<u>401,243</u>	<u>(323,055)</u>	<u>171,801</u>
Capital assets, being depreciated:				
Land improvements	106,714	-	-	106,714
Buildings and improvements	2,732,123	-	-	2,732,123
Equipment and furniture	1,673,738	99,107	-	1,772,845
Vehicles	415,946	-	(106,485)	309,461
Infrastructure				
Water	5,144,066	322,955	-	5,467,021
Electric	<u>131,955</u>	<u>-</u>	<u>-</u>	<u>131,955</u>
Total capital assets, being depreciated	<u>10,204,542</u>	<u>422,062</u>	<u>(106,485)</u>	<u>10,520,119</u>
Less accumulated depreciation:				
Land improvements	(71,744)	(7,532)	-	(79,276)
Buildings and improvements	(1,086,107)	(57,756)	-	(1,143,863)
Equipment and furniture	(262,122)	(48,169)	-	(310,291)
Vehicles	(329,790)	(13,783)	106,485	(237,088)
Infrastructure				
Water	(1,581,625)	(104,179)	-	(1,685,804)
Electric	<u>(21,569)</u>	<u>(3,975)</u>	<u>-</u>	<u>(25,544)</u>
Total accumulated depreciation	<u>(3,352,957)</u>	<u>(235,394)</u>	<u>106,485</u>	<u>(3,481,866)</u>
Total capital assets being depreciated, net	<u>6,851,585</u>	<u>186,668</u>	<u>-</u>	<u>7,038,253</u>
Business-type activities capital assets, net	<u>\$ 6,945,198</u>	<u>\$ 587,911</u>	<u>\$ (323,055)</u>	<u>\$ 7,210,054</u>

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

NOTE 8 – Compensated Absences

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

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

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

As of December 31, 2016 the liability for long-term unpaid compensated absences was \$510,041 for the governmental activities, which would be paid from the general fund, the employee benefit fund, and parks, recreation, boat basin, street maintenance and state highway, special fire levy, street lighting, police grants, and probation special revenue funds and liability for long-term unpaid compensated absences for business-type activities was \$93,812, which would be paid from the water and electric funds.

NOTE 9 – Long-term Obligations

Governmental Activities A summary of the governmental activities' debt and other long-term obligations as of December 31, 2016 are as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds</u>					
2015 Various purpose bonds, 2.25% - 3.75%, maturing 2030	\$ 1,310,000	\$ -	\$ (85,000)	\$ 1,225,000	\$ 90,000
2012 Various purpose refunding, 2.00% - 2.10%, maturing 2023	1,234,200	-	(211,400)	1,022,800	174,200
Premium on bonds	<u>23,586</u>	<u>-</u>	<u>(5,731)</u>	<u>17,855</u>	<u>-</u>
Total general obligation bonds	<u>2,567,786</u>	<u>-</u>	<u>(302,131)</u>	<u>2,265,655</u>	<u>264,200</u>
<u>Long-term notes</u>					
2016 Various Purpose Notes, 1.11%	-	3,303,000	-	3,303,000	-
2015 Various Purpose Notes, 1%	<u>1,928,000</u>	<u>-</u>	<u>(1,928,000)</u>	<u>-</u>	<u>-</u>
Total long-term notes	<u>1,928,000</u>	<u>3,303,000</u>	<u>(1,928,000)</u>	<u>3,303,000</u>	<u>-</u>
<u>Other obligations</u>					
Capital leases	166,126	268,993	(167,667)	267,452	80,714
Lease-purchase loan	143,419	-	(27,073)	116,346	27,855
Compensated absences	484,859	217,809	(192,627)	510,041	190,033
Net pension liability:					
OPERS	830,361	406,632	-	1,236,993	-
OP&F	<u>4,626,946</u>	<u>1,050,065</u>	<u>-</u>	<u>5,677,011</u>	<u>-</u>
Total net pension liability	<u>5,457,307</u>	<u>1,456,697</u>	<u>-</u>	<u>6,914,004</u>	<u>-</u>
Total governmental activities	<u>\$ 10,747,497</u>	<u>\$ 5,246,499</u>	<u>\$ (2,617,498)</u>	<u>\$ 13,376,498</u>	<u>\$ 562,802</u>

Business-type Activities A summary of the business-type activities' debt and other long-term obligations as of December 31, 2016 are as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

<u>Business-type activities</u>	Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
<u>General obligation bonds</u>					
2012 Various purpose refunding, 2.00% - 2.10%, maturing 2023	\$ 820,800	\$ -	\$ (118,600)	\$ 702,200	\$ 120,800
Premium on bonds	15,095	-	(3,534)	11,561	-
Total general obligation bonds	<u>835,895</u>	<u>-</u>	<u>(122,134)</u>	<u>713,761</u>	<u>120,800</u>
<u>Loans</u>					
Ohio Water Development Authority:					
Chaska Beach, 6.63%, due 2017	83,543	-	(55,132)	28,411	28,411
Industrial Park, 3.00%, due 2016	80,112	-	(80,112)	-	-
Water projects, 5.66%, due 2019	251,532	-	(67,140)	184,392	70,940
Total loans	<u>415,187</u>	<u>-</u>	<u>(202,384)</u>	<u>212,803</u>	<u>99,351</u>
<u>Other obligations</u>					
Capital lease	147,594	-	(108,768)	38,826	38,826
Compensated absences	83,281	40,655	(30,124)	93,812	34,762
Net pension liability:					
Water	468,878	214,576	-	683,454	-
Electric	10,478	4,379	-	14,857	-
Total net pension liability	<u>479,356</u>	<u>218,955</u>	<u>-</u>	<u>698,311</u>	<u>-</u>
Total business-type activities	<u>\$ 1,961,313</u>	<u>\$ 259,610</u>	<u>\$ (463,410)</u>	<u>\$ 1,757,513</u>	<u>\$ 293,739</u>

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

During 2016, the City issued \$3,303,000 in various purpose bond anticipation notes which are due July 20, 2017. Revenues for payment of interest and principal on the bond will result from proceeds from a new note to be issued in 2018.

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

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

In prior years, the City entered into contractual agreements for new construction loans from OWDA. Under the terms of these agreements, OWDA reimbursed, advanced or directly paid the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. A line of credit has been established for various projects.

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

Governmental activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

	2015 Various Purpose Bonds		2012 Various Purpose Refunding Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 90,000	\$ 37,656	\$ 174,200	\$ 20,570
2018	90,000	35,632	168,600	17,086
2019	90,000	33,606	140,000	13,714
2020	105,000	31,582	149,000	10,914
2021	100,000	29,219	142,000	7,934
2022-2026	460,000	98,031	249,000	7,488
2027-2030	290,000	27,562	-	-
	<u>\$ 1,225,000</u>	<u>\$ 293,288</u>	<u>\$ 1,022,800</u>	<u>\$ 77,706</u>

	2015 Lease-purchase loan	
	Principal	Interest
2017	\$ 27,855	\$ 3,363
2018	28,661	2,557
2019	29,489	1,729
2020	30,341	877
	<u>\$ 116,346</u>	<u>\$ 8,526</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Business-type activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

	2012 Various Purpose Refunding Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest*
2017	\$ 120,800	\$ 14,140	\$ 99,351	\$ 12,233
2018	116,400	11,724	74,955	6,421
2019	90,000	9,396	38,497	2,191
2020	96,000	7,596	-	-
2021	93,000	5,676	-	-
2022-2023	186,000	5,832	-	-
	<u>\$ 702,200</u>	<u>\$ 54,364</u>	<u>\$ 212,803</u>	<u>\$ 20,845</u>

*Includes \$6,242 of subsidy

NOTE 10 – Note Debt

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

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

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

NOTE 11 – Capital Lease

During 2016, the City entered into several new capital leases. Governmental activities acquired two vehicles for the police department, a truck with a plow package and a backhoe. These assets were capitalized and reported as additions to capital assets in the amount of \$268,993. In addition, assets acquired in previous years are being reported with a value of \$642,234 and depreciated over their estimated useful lives. Business-type activities acquired a vehicle valued at \$22,139, during 2013, and equipment acquired in prior years is valued at \$422,004 from capital lease financing. These capital assets are being depreciated over their estimated useful lives. The lease agreements qualify as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future lease payments as of the inception date.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at December 31, 2016:

<u>Year</u>	Lease Payments	Lease Payments
	Governmental <u>Activities</u>	Business-type <u>Activities</u>
2017	\$ 86,975	\$ 39,368
2018	65,843	-
2019	44,735	-
2020	44,735	-
2021	44,735	-
Total minimum lease payments	287,023	39,368
Less: amount representing interest	(19,571)	(542)
Present value of minimum lease payments	<u>\$ 267,452</u>	<u>\$ 38,826</u>

NOTE 12 – Defined Benefit Pension Plan

Net pension liability

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

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

Ohio Public Employees Retirement System

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

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):

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

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

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

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

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

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

	<u>State and Local</u>
2016 Statutory maximum contribution rates	
Employer	14.00 %
Employee	10.00 %
2016 Actual contribution rates	
Employer:	
Pension	12.00 %
Post-employment health care benefits	<u>2.00</u>
Total employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$154,118 for 2016. Of this amount, \$22,804 is reported as an intergovernmental payable.

Ohio Police and Fire Pension Fund

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

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

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

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

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee:		
January 1, 2016 through December 31, 2016	12.25%	12.25%
2016 Actual contribution rates		
Employer:		
Pension	19.00%	23.50%
Post-employment health care benefits	<u>0.50%</u>	<u>0.50%</u>
Total employer	<u>19.50%</u>	<u>24.00%</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$329,219 for 2016. Of this amount \$46,431 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability - prior measurement date	0.010859%	0.089316%	
Proportion of the net pension liability - current measurement date	<u>0.011173%</u>	<u>0.088247%</u>	
Change in proportionate share	<u>0.000314%</u>	<u>-0.001069%</u>	
Proportionate share of the net pension liability	\$ 1,935,304	\$ 5,677,011	\$ 7,612,315
Pension expense	\$ 259,077	\$ 748,112	\$ 1,007,189

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

	<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	\$ 568,859	\$ 924,001	\$ 1,492,860
Changes in proportion and difference between City contributions and proportionate share of contributions	24,988	55,537	80,525
City contributions subsequent to the measurement date	<u>154,118</u>	<u>329,219</u>	<u>483,337</u>
Total deferred outflows of resources	<u>\$ 747,965</u>	<u>\$ 1,308,757</u>	<u>\$ 2,056,722</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 37,394	\$ 15,940	\$ 53,334
Changes in proportionate share and difference between City contributions and proportionate share of contributions	<u>-</u>	<u>101,105</u>	<u>101,105</u>
Total deferred inflows of resources	<u>\$ 37,394</u>	<u>\$ 117,045</u>	<u>\$ 154,439</u>

\$483,337 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year ending December 31:			
2017	\$ 135,946	\$ 231,461	\$ 367,407
2018	145,040	231,461	376,501
2019	146,734	231,464	378,198
2020	128,733	182,207	310,940
2021	-	(11,852)	(11,852)
Thereafter	<u>-</u>	<u>(2,248)</u>	<u>(2,248)</u>
Total	<u>\$ 556,453</u>	<u>\$ 862,493</u>	<u>\$ 1,418,946</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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, 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

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 Benefit portfolio, the 401(h) 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 Member-Directed retiree medical accounts funded through the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4% for 2015.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

<u>Asset class</u>	Target <u>allocation</u>	Weighted average long-term expected real rate of return <u>(arithmetic)</u>
Fixed income	23.00%	2.31%
Domestic equities	20.70%	5.84%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
International equities	18.30%	7.40%
Other investments	<u>18.00%</u>	<u>4.59%</u>
Total	<u>100.00%</u>	<u>5.27%</u>

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 <u>(7.00%)</u>	Current discount rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
City's proportionate share of the net pension liability	\$ 3,083,413	\$ 1,935,304	\$ 966,911

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 percent and 3.00 percent

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Asset class	Target Allocation	10 year expected real rate of return**	30 year expected real rate of return**
Cash and cash equivalents	0.00%	0.00%	0.00%
Domestic equity	16.00%	6.50%	7.80%
Non-US equity	16.00%	6.70%	8.00%
Core fixed income *	20.00%	3.50%	5.35%
Global inflation protected *	20.00%	3.50%	4.73%
High yield	15.00%	6.35%	7.21%
Real estate	12.00%	5.80%	7.43%
Private markets	8.00%	9.50%	10.73%
Timber	5.00%	6.55%	7.35%
Master limited partnerships	<u>8.00%</u>	9.65%	10.75%
Total	<u>120.00%</u>		

* levered 2x

**numbers are net of expected inflation

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

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

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

	1% Decrease <u>(7.25%)</u>	Current discount rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability	\$ 7,487,216	\$ 5,677,011	\$ 4,143,588

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

NOTE 13 – Post Employment Benefits

Ohio Public Employees Retirement System

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

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

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

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377 or by visiting the website at <https://www.opers.org/financial/reports.shtml#CAFR>.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2016, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2016, 2015, and 2014 were \$29,189, \$27,096 and \$31,200 respectively; 87% has been contributed for 2016 and 100% for 2015 and 2014. \$3,801 representing the unpaid contribution for fiscal year 2016 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

Ohio Police and Firemen's Disability and Pension Fund

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to healthcare was 0.5% of covered payroll from January 1, 2016 through December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's total contributions to OP&F for police and fire healthcare for the years ending December 31, 2016, 2015 and 2014 were \$7,835, \$8,455 and \$8,843 respectively, 85.9 percent has been contributed, for 2016 with the remainder being reported as a liability. \$1,113 representing the unpaid contribution for fiscal year 2016 is recorded as an intergovernmental payable.

NOTE 14 – Jointly Governed Organization

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

NOTE 15 – Risk Management

The City of Huron is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2016, the City contracted with several companies for various types of insurance as follows:

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2015	\$ 90,724	\$ 787,670	\$ (716,739)	\$ 161,655
2016	161,655	311,625	(463,574)	9,706

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 casualty claims and \$100,000 for property claims.

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets	\$ 42,182,281	\$ 38,307,677
Liabilities	<u>(13,396,700)</u>	<u>(12,759,127)</u>
Net Position	<u>\$ 28,785,581</u>	<u>\$ 25,548,550</u>

At December 31, 2016 and 2015, respectively, liabilities noted above include approximately \$12 million and \$11.5 million of estimated incurred claims payable. The assets and net position above also include approximately \$11.5 million and \$11.0 million of unpaid claims to be billed to approximately 520 member governments in the future, as of December 31, 2016 and 2015, respectively.

These amounts will be included in future contributions from members when the related claims are due for payments. As of December 31, 2016, the City's share of these unpaid claims collectible in future years is approximately \$30,833.

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

	Contributions <u>to PEP</u>
2015	\$ 47,356
2016	48,942

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

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

NOTE 16 – Interfund Transactions

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

Transfers from general fund to:	
Fire levy fund	\$ 200,000
Capital improvement fund	200,000
Nonmajor governmental funds	<u>338,741</u>
	738,741
Transfers from street maintenance fund to:	
Nonmajor governmental funds	44,000
Transfers from fire levy fund to:	
Nonmajor governmental funds	22,500
Transfers from nonmajor governmental funds to:	
General obligation bond retirement fund	15,300
Other nonmajor governmental funds	<u>90,680</u>
	<u>105,980</u>

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

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

NOTE 17 – Related Party Transactions

The City Mayor's family is an owner of a title company that processed title settlement for the purchase of land and provided surveyor services for the City. The City paid \$5,000 for these transactions in 2016.

A City Councilman's wife provides graphic design services to the City and was paid \$1,685 in 2016.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

NOTE 18 – Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City has established a Community Reinvestment Area (CRA). The City of Huron authorizes incentives through passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the CRA gave the City the ability to maintain and expand businesses located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate. The City of Huron also contracts with the Huron City School District (the School District) for payments in lieu of taxes when required by section 5709.82 of the Ohio Revised Code.

During 2016, the City abated property taxes totaling \$205,623 within the Community Reinvestment Area.

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

The City of Huron also has a Community Reinvestment Area Compensation Agreement with a local business receiving abated taxes. Under this agreement the business is to make annual payments equal for 5 percent of any abatement received for the prior year dedicated to the City's fire and EMS operations. During the year the City received \$3,728 for this agreement.

Required Supplementary Information

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

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

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

(2) Restated during 2015.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Public Employees Retirement System - Traditional Plan				
Contractually required contribution	\$ 154,118	\$ 143,069	\$ 164,736	\$ 178,045
Contributions in relation to contractually required contribution	<u>(154,118)</u>	<u>(143,069)</u>	<u>(164,736)</u>	<u>(178,045)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 1,284,317	\$ 1,192,242	\$ 1,372,800	\$ 1,369,577
Contributions as a percentage of covered employee payroll	12.00%	12.00%	12.00%	13.00%

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Police and Fire Pension Fund				
Contractually required contribution	\$ 329,219	\$ 361,123	\$ 377,084	\$ 321,592
Contributions in relation to contractually required contribution	<u>(329,219)</u>	<u>(361,123)</u>	<u>(377,084)</u>	<u>(321,592)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 1,549,266	\$ 1,797,526	\$ 1,852,083	\$ 1,882,857
Contributions as a percentage of covered employee payroll	21.25%	20.09%	20.36%	17.08%

(1) Information prior to 2013 is not available.

City of Huron, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2016

Ohio Public Employees Retirement System - Traditional Plan

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

Ohio Police and Fire Pension Fund

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014, 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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

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

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

To the Members of the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States 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 Huron, Erie County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 9, 2017.

Internal Control Over Financial Reporting

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

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

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


Compliance and Other Matters

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

We did note certain matters not requiring inclusion in the report that we reported to the City's management in a separate letter dated June 9, 2017.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.

June 9, 2017

**CITY OF HURON
ERIE COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding for Recovery	No	Finding is being disputed by the City. Finding for recovery is still unpaid.

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Dave Yost • Auditor of State

CITY OF HURON

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 24, 2017