



Dave Yost • Auditor of State

**CITY OF WATERVILLE
LUCAS COUNTY
DECEMBER 31, 2016**

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LUCAS COUNTY
DECEMBER 31, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas County, Ohio (the City), as of and for the year ended December 31, 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 Waterville, Lucas County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 30, 2017

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The discussion and analysis of the City of Waterville's financial performance provides an overview of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2016 are as follows:

In total, the City's net position increased less than 1 percent from the prior year; both governmental activities and business-type activities had an increase of less than 1 percent.

The Water and Sewer enterprise funds both had an operating income; however, the Water enterprise fund had a 2 percent increase in net position while the Sewer enterprise fund had a decrease of less than 1 percent.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net position and the statement of activities reflect how the City did financially during 2016. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2016
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In the statement of net position and the statement of activities, the City is divided into two types of activities:

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2016 and 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Assets</u>						
Current and Other Assets	\$5,731,790	\$5,029,186	\$2,013,063	\$3,873,261	\$7,744,853	\$8,902,447
Capital Assets, Net	15,116,724	15,568,919	13,993,176	12,264,483	29,109,900	27,833,402
Total Assets	20,848,514	20,598,105	16,006,239	16,137,744	36,854,753	36,735,849
<u>Deferred Outflows of Resources</u>						
Pension	882,259	321,313	138,825	43,340	1,021,084	364,653
<u>Liabilities</u>						
Current and Other Liabilities	568,642	369,040	1,517,080	1,526,109	2,085,722	1,895,149
Long-Term Liabilities						
Pension	3,052,155	2,288,507	353,740	243,667	3,405,895	2,532,174
Other Amounts	2,619,075	2,915,820	5,445,746	5,626,090	8,064,821	8,541,910
Total Liabilities	6,239,872	5,573,367	7,316,566	7,395,866	13,556,438	12,969,233
<u>Deferred Inflows of Resources</u>						
Pension	20,335	8,691	7,613	4,281	27,948	12,972
Other Amounts	400,945	381,204	0	0	400,945	381,204
Total Deferred Inflows of Resources	421,280	389,895	7,613	4,281	428,893	394,176
<u>Net Position</u>						
Net Investment in Capital Assets	12,270,882	12,594,339	8,963,391	9,410,712	21,234,273	22,005,051
Restricted	2,398,095	1,876,977	0	0	2,398,095	1,876,977
Unrestricted (Deficit)	400,644	484,840	(142,506)	(629,775)	258,138	(144,935)
Total Net Position	\$15,069,621	\$14,956,156	\$8,820,885	\$8,780,937	23,890,506	\$23,737,093

The net pension liability is the largest liability reported by the City at December 31, 2016, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

CITY OF WATERVILLE
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GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

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

In accordance with GASB Statement No. 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

As noted previously, net position for governmental activities increased less than 1 percent from the prior year. However, there were several changes of note. The increase in current and other assets is related to an increase in cash and cash equivalents, largely due to an increase in income tax revenue, and an increase in the internal balance (resources due to governmental activities from the business-type activities). The increase in current and other liabilities is due to amounts owed at year end for contracted work for the 2016 road resurfacing program (contracts and retainage payable).

CITY OF WATERVILLE
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The most significant change for business-type activities was the decrease in current and other assets (primarily cash and cash equivalents) and the increase in net capital assets. This was due to the majority of the bond proceeds (issued in 2015) being spent and capitalized as construction in progress in 2016.

Table 2 reflects the change in net position for 2016 and 2015.

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Revenues</u>						
<u>Program Revenues</u>						
Charges for Services	\$605,341	\$484,915	\$2,387,818	\$2,030,026	\$2,993,159	\$2,514,941
Operating Grants, Contributions, and Interest	301,194	294,307	0	0	301,194	294,307
Capital Grants and Contributions	30,037	200,261	0	15,900	30,037	216,161
Total Program Revenues	936,572	979,483	2,387,818	2,045,926	3,324,390	3,025,409
<u>General Revenues</u>						
Property Taxes Levied for General Purposes	372,743	342,725	0	0	372,743	342,725
Property Taxes Levied for Police Pension	32,895	32,097	0	0	32,895	32,097
Municipal Income Taxes	3,446,532	3,005,067	0	0	3,446,532	3,005,067
Payment in Lieu of Taxes	92,764	75,189	0	0	92,764	75,189
Grants and Entitlements not Restricted to Specific Programs	294,582	295,871	0	0	294,582	295,871
Franchise Taxes	89,938	88,997	0	0	89,938	88,997
Interest	25,090	18,405	27,075	17,408	52,165	35,813
Other	132,819	120,184	10,216	69,262	143,035	189,446
Total General Revenues	4,487,363	3,978,535	37,291	86,670	4,524,654	4,065,205
Total Revenues	5,423,935	4,958,018	2,425,109	2,132,596	7,849,044	7,090,614
<u>Program Expenses</u>						
<u>Security of Persons and Property</u>						
Police	1,353,223	1,220,511	0	0	1,353,223	1,220,511
Fire	747,937	648,630	0	0	747,937	648,630
Other	92,572	91,159	0	0	92,572	91,159
Leisure Time Activities	87,290	86,878	0	0	87,290	86,878
Community Environment	242,530	102,094	0	0	242,530	102,094
Basic Utility Services	249,868	252,315	0	0	249,868	252,315
Transportation	1,229,646	1,198,672	0	0	1,229,646	1,198,672
General Government	1,235,298	1,155,970	0	0	1,235,298	1,155,970
Interest and Fiscal Charges	66,106	69,742	0	0	66,106	69,742

(continued)

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Table 2
Change in Net Position
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Program Expenses (continued)</u>						
Water	\$0	\$0	\$1,524,595	\$1,658,201	\$1,524,595	\$1,658,201
Sewer	0	0	866,566	826,262	866,566	826,262
Total Expenses	<u>5,304,470</u>	<u>4,825,971</u>	<u>2,391,161</u>	<u>2,484,463</u>	<u>7,695,631</u>	<u>7,310,434</u>
Increase (Decrease) in Net Position Before Transfers	119,465	132,047	33,948	(351,867)	153,413	(219,820)
Transfers	(6,000)	(6,000)	6,000	6,000	0	0
Increase (Decrease) in Net Position	113,465	126,047	39,948	(345,867)	153,413	(219,820)
Net Position Beginning of Year	<u>14,956,156</u>	<u>14,830,109</u>	<u>8,780,937</u>	<u>9,126,804</u>	<u>23,737,093</u>	<u>23,956,913</u>
Net Position End of Year	<u>\$15,069,621</u>	<u>\$14,956,156</u>	<u>\$8,820,885</u>	<u>\$8,780,937</u>	<u>\$23,890,506</u>	<u>\$23,737,093</u>

For governmental activities, there was a modest decrease in total program revenues from the prior year. Charges for services increased somewhat and primarily related to an increase in construction activity in the City for which the City charges for plan reviews. The decrease in capital grants and contributions is due to a project in the prior year which received grant resources from the Ohio Department of Transportation (Waterville/Monclova Road project). The most significant change in general revenues was an increase in municipal income taxes. There was an increase in single family homes, a number of small business openings or expansions, and taxes from contractors while in the City working on construction projects. Overall, there was a 10 percent increase in expenses with modest increases in most programs.

The City's business-type activities are almost entirely funded through charges for services. The increase in revenues was largely related to the Water Fund. In the prior year, the City increased user rates due to an increase in charges paid by the City to the City of Toledo (the City's water provider). There was a partial year of collections at the new rate in the prior year and a full year of collections at the new rate in 2016. The change in expenses was not significant.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Security of Persons and Property				
Police	\$1,353,223	\$1,220,511	\$1,332,012	\$1,197,419
Fire	747,937	648,630	611,847	503,252
Other	92,572	91,159	92,572	91,159
Leisure Time Activities	87,290	86,878	79,783	79,996
Community Environment	242,530	102,094	239,896	96,444
Basic Utility	249,868	252,315	5,811	14,880
Transportation	1,229,646	1,198,672	890,126	685,335
General Government	1,235,298	1,155,970	1,049,745	1,108,261
Interest and Fiscal Charges	66,106	69,742	66,106	69,742
Total Expenses	\$5,304,470	\$4,825,971	\$4,367,898	\$3,846,488

General revenues provided for 82 percent of the costs of providing governmental services in 2016 (80 percent in 2015). The City's most significant revenue source is municipal income taxes. Dependence on municipal income taxes and, to a lesser degree, property taxes is critical to the City's operations; there are few programs which are well supported through program revenues. The basic utility program charges for services include the fees for trash collection. The transportation program receives charges for services in the form of permissive motor vehicle license monies. The transportation program also receives operating grants in the form of State levied motor vehicle license fees and gas taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Various Improvements capital projects fund. The General Fund had a 12 percent increase in fund balance. Revenues (most notably municipal income taxes and charges for services) increased 16 percent from the prior year. Total expenditures increased approximately 5 percent.

The Various Improvements Fund had a 29 percent increase in fund balance due largely to an increase in the transfer from the General Fund to subsidize operations.

CITY OF WATERVILLE
Management's Discussion and Analysis
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BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. There was an increase in net position of 2 percent in the Water Fund which was not significant.

There was a modest decrease in net position for the Sewer Fund.

BUDGETARY HIGHLIGHTS

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

The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget as well as from the final budget to actual revenues were not significant. For expenditures, there was an 11 percent increase from the original budget to the final budget as almost all programs had modest increases. Actual expenditures were more closely aligned with the original budget, due to conservative budgeting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's net investment in capital assets for governmental and business-type activities as of December 31, 2016, was \$12,270,882 and \$8,963,391, respectively (net of accumulated depreciation and related debt). This net investment in capital assets includes land and land improvements, buildings, equipment, vehicles, and infrastructure (streets and water, sewer, and storm sewer lines). For governmental activities, the additions for 2016 primarily consisted of street improvements, a police cruiser, and three trucks for the street department. Additions for business-type activities were largely water line construction related. Disposals for governmental activities included the vehicles that were replaced by the new additions mentioned above. Disposals were minimal for business-type activities (just the completion of construction activities). For further information regarding the City's capital assets, refer to Note 9 to the basic financial statements.

Debt - At December 31, 2016, the City had \$1,760,000 in outstanding bond anticipation notes, \$5,195,000 in general obligation bonds, \$698,148 in Ohio Public Works Commission loans, \$35,293 in Ohio Water Development Authority loans, and \$1,586,316 in a long-term loan with Lucas County. Of this total outstanding debt, \$6,666,778 will be paid from business-type activities.

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

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

CURRENT ISSUES

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

In 2014, the three labor union contracts in place since January 1, 2013, were renegotiated. The union contracts include the Ohio Patrolmen's Benevolent Association, including one contract for police command officers and one contract for patrol officers, and the Teamsters Union representing the public works technicians. All three contracts became effective January 1, 2015, and are for a three-year period.

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

- Currently under construction along Pray Boulevard north of State Route 64 are: an office for a local chiropractor, a senior living community with one hundred thirty-two dwelling units, a one hundred eight unit apartment complex, and a sixteen lot single family residential subdivision.
- At the Browning Masonic Community, a fourteen lot "villa" residential development for senior living was recently completed and an additional twenty units are currently under construction.
- During 2016, the City issued \$1,760,000 in bond anticipation notes to retire notes previously issued for construction/improvement related projects. The notes had an interest rate of 1.25 percent and mature on July 26, 2017.
- A 43,000 square foot addition to the existing 80,000 square foot Kroger retail store is currently under construction.
- An additional twenty-seven lots are being planned for the Waterville Meadows residential subdivision.
- A twelve-unit residential condominium project on Waterville-Monclova Road is currently under construction.

REQUEST FOR INFORMATION

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

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City of Waterville
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,350,865	\$1,978,771	\$5,329,636
Accounts Receivable	110,274	234,092	344,366
Accrued Interest Receivable	7,149	2,698	9,847
Internal Balances	250,000	(250,000)	0
Due from Other Governments	275,860	7,466	283,326
Municipal Income Taxes Receivable	1,247,032	0	1,247,032
Other Local Taxes Receivable	4,246	0	4,246
Prepaid Items	23,681	5,499	29,180
Materials and Supplies Inventory	38,518	33,553	72,071
Property Taxes Receivable	404,786	0	404,786
Special Assessments Receivable	19,379	984	20,363
Nondepreciable Capital Assets	1,939,933	2,342,140	4,282,073
Depreciable Capital Assets, Net	13,176,791	11,651,036	24,827,827
Total Assets	20,848,514	16,006,239	36,854,753
<u>Deferred Outflows of Resources</u>			
Pension	882,259	138,825	1,021,084
<u>Liabilities</u>			
Accrued Wages Payable	64,733	11,165	75,898
Accounts Payable	60,212	4,374	64,586
Contracts Payable	233,106	46,665	279,771
Due to Other Governments	46,973	98,057	145,030
Retainage Payable	4,757	91,551	96,308
Accrued Interest Payable	7,423	16,914	24,337
Notes Payable	151,438	1,248,354	1,399,792
Long-Term Liabilities			
Due Within One Year	595,698	316,993	912,691
Due in More Than One Year			
Net Pension Liability	3,052,155	353,740	3,405,895
Other Amounts Due in More Than One Year	2,023,377	5,128,753	7,152,130
Total Liabilities	6,239,872	7,316,566	13,556,438
<u>Deferred Inflows of Resources</u>			
Property Taxes	400,945	0	400,945
Pension	20,335	7,613	27,948
Total Deferred Inflows of Resources	421,280	7,613	428,893
<u>Net Position</u>			
Net Investment in Capital Assets	12,270,882	8,963,391	21,234,273
Restricted for			
Capital Projects	1,969,533	0	1,969,533
Other Purposes	26,703	0	26,703
Street Construction, Maintenance, and Repair	401,859	0	401,859
Unrestricted (Deficit)	400,644	(142,506)	258,138
Total Net Position	\$15,069,621	\$8,820,885	\$23,890,506

See Accompanying Notes to the Basic Financial Statements

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,353,223	\$16,285	\$4,926	\$0
Fire	747,937	121,801	14,289	0
Other	92,572	0	0	0
Leisure Time Activities	87,290	7,507	0	0
Community Environment	242,530	2,634	0	0
Basic Utility Services	249,868	244,057	0	0
Transportation	1,229,646	27,504	281,979	30,037
General Government	1,235,298	185,553	0	0
Interest and Fiscal Charges	66,106	0	0	0
Total Governmental Activities	5,304,470	605,341	301,194	30,037
<u>Business-Type Activities</u>				
Water	1,524,595	1,582,085	0	0
Sewer	866,566	805,733	0	0
Total Business-Type Activities	2,391,161	2,387,818	0	0
Total	\$7,695,631	\$2,993,159	\$301,194	\$30,037

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,332,012)	\$0	(\$1,332,012)
(611,847)	0	(611,847)
(92,572)	0	(92,572)
(79,783)	0	(79,783)
(239,896)	0	(239,896)
(5,811)	0	(5,811)
(890,126)	0	(890,126)
(1,049,745)	0	(1,049,745)
(66,106)	0	(66,106)
<u>(4,367,898)</u>	<u>0</u>	<u>(4,367,898)</u>
0	57,490	57,490
0	(60,833)	(60,833)
0	(3,343)	(3,343)
<u>(4,367,898)</u>	<u>(3,343)</u>	<u>(4,371,241)</u>
372,743	0	372,743
32,895	0	32,895
3,446,532	0	3,446,532
92,764	0	92,764
294,582	0	294,582
89,938	0	89,938
25,090	27,075	52,165
132,819	10,216	143,035
4,487,363	37,291	4,524,654
(6,000)	6,000	0
<u>4,481,363</u>	<u>43,291</u>	<u>4,524,654</u>
113,465	39,948	153,413
<u>14,956,156</u>	<u>8,780,937</u>	<u>23,737,093</u>
<u><u>\$15,069,621</u></u>	<u><u>\$8,820,885</u></u>	<u><u>\$23,890,506</u></u>

City of Waterville
Balance Sheet
Governmental Funds
December 31, 2016

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,502,104	\$1,401,342	\$447,419	\$3,350,865
Accounts Receivable	87,883	0	22,391	110,274
Accrued Interest Receivable	2,272	4,522	355	7,149
Interfund Receivable	0	250,000	0	250,000
Due from Other Governments	146,163	0	129,697	275,860
Municipal Income Taxes Receivable	935,274	311,758	0	1,247,032
Other Local Taxes Receivable	0	0	4,246	4,246
Prepaid Items	18,736	0	4,945	23,681
Materials and Supplies Inventory	9,206	0	29,312	38,518
Property Taxes Receivable	373,094	0	31,692	404,786
Special Assessments Receivable	0	19,379	0	19,379
Total Assets	\$3,074,732	\$1,987,001	\$670,057	\$5,731,790
<u>Liabilities</u>				
Accrued Wages Payable	\$58,424	\$0	\$6,309	\$64,733
Accounts Payable	37,919	14,769	7,524	60,212
Contracts Payable	0	233,106	0	233,106
Due to Other Governments	42,320	0	4,653	46,973
Retainage Payable	0	4,757	0	4,757
Accrued Interest Payable	0	799	0	799
Notes Payable	0	151,438	0	151,438
Total Liabilities	138,663	404,869	18,486	562,018
<u>Deferred Inflows of Resources</u>				
Property Taxes	369,565	0	31,380	400,945
Unavailable Revenue	920,132	269,380	133,621	1,323,133
Total Deferred Inflows of Resources	1,289,697	269,380	165,001	1,724,078
<u>Fund Balance</u>				
Nonspendable	27,942	0	34,257	62,199
Restricted	0	1,312,752	300,800	1,613,552
Committed	53,691	0	151,513	205,204
Assigned	498,702	0	0	498,702
Unassigned	1,066,037	0	0	1,066,037
Total Fund Balance	1,646,372	1,312,752	486,570	3,445,694
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$3,074,732	\$1,987,001	\$670,057	\$5,731,790

See Accompanying Notes to the Basic Financial Statements

City of Waterville
 Reconciliation of Total Governmental Fund Balance
 to Net Position of Governmental Activities
 December 31, 2016

Total Governmental Fund Balance		\$3,445,694
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		15,116,724
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
Accounts Receivable	74,313	
Accrued Interest Receivable	4,102	
Due from Other Governments	236,352	
Municipal Income Taxes Receivable	982,399	
Delinquent Property Taxes Receivable	3,841	
Special Assessments Receivable	22,126	
		1,323,133
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Accrued Interest Payable	(6,624)	
Bond Anticipation Notes Payable	(360,208)	
General Obligations Bonds Payable	(1,935,000)	
OPWC Loans Payable	(161,333)	
Compensated Absences Payable	(162,534)	
		(2,625,699)
<p>The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.</p>		
Deferred Outflows - Pension	882,259	
Deferred Inflows - Pension	(20,335)	
Net Pension Liability	(3,052,155)	
		(2,190,231)
Net Position of Governmental Activities		<u>\$15,069,621</u>

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2016

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$374,760	\$0	\$33,073	\$407,833
Municipal Income Taxes	2,643,690	881,229	0	3,524,919
Other Local Taxes	0	0	27,504	27,504
Payment in Lieu of Taxes	0	0	92,764	92,764
Special Assessments	0	7,863	0	7,863
Charges for Services	486,437	0	0	486,437
Fees, Licenses, and Permits	68,037	0	99,413	167,450
Fines and Forfeitures	11,191	0	2,935	14,126
Intergovernmental	308,373	30,037	282,360	620,770
Interest	13,691	11,945	1,886	27,522
Other	106,458	21,030	5,331	132,819
Total Revenues	4,012,637	952,104	545,266	5,510,007
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,143,631	31,597	41,272	1,216,500
Fire	607,662	27,566	0	635,228
Other	92,562	10	0	92,572
Leisure Time Activities	20,340	0	47,358	67,698
Community Environment	133,794	78,466	19,000	231,260
Basic Utility Services	249,868	0	0	249,868
Transportation	0	513,104	323,524	836,628
General Government	1,028,934	101,349	92,764	1,223,047
Capital Outlay	0	11,270	0	11,270
Debt Service:				
Principal Retirement	0	160,209	0	160,209
Current Refunding	0	151,438	0	151,438
Interest and Fiscal Charges	0	66,598	0	66,598
Total Expenditures	3,276,791	1,141,607	523,918	4,942,316
Excess of Revenues Over (Under) Expenditures	735,846	(189,503)	21,348	567,691
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	7,150	0	7,150
Bond Anticipation Notes Issued	0	360,208	0	360,208
Current Refunding	0	(360,208)	0	(360,208)
Transfers In	0	475,000	80,000	555,000
Transfers Out	(561,000)	0	0	(561,000)
Total Other Financing Sources (Uses)	(561,000)	482,150	80,000	1,150
Change in Fund Balance	174,846	292,647	101,348	568,841
Fund Balance Beginning of Year	1,471,526	1,020,105	385,222	2,876,853
Fund Balance End of Year	\$1,646,372	\$1,312,752	\$486,570	\$3,445,694

See Accompanying Notes to the Basic Financial Statements

City of Waterville
 Reconciliation of Statement of Revenues, Expenditures,
 and Change in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2016

Change in Fund Balance - Total Governmental Funds \$568,841

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

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

Capital Outlay- Depreciable Capital Assets	450,557	
Depreciation	<u>(870,921)</u>	(420,364)

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

Proceeds from the Sale of Capital Assets	(7,150)	
Loss on Disposal of Capital Assets	<u>(24,681)</u>	(31,831)

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

Delinquent Property Taxes	(2,195)	
Municipal Income Taxes	(78,387)	
Special Assessments	(5,229)	
Charges for Services	(2,674)	
Fees, Licenses, and Permits	(198)	
Intergovernmental	3,010	
Interest	<u>(399)</u>	(86,072)

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

Bond Anticipation Notes Payable	511,646	
General Obligation Bonds Payable	140,000	
OPWC Loans Payable	<u>20,209</u>	671,855

Bond anticipation note proceeds are other financing sources in governmental funds but the issuance increases long-term liabilities on the statement of net position. (360,208)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. 492

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (14,902)

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (432,996)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows. 218,650

Change in Net Position of Governmental Activities \$113,465

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$399,950	\$367,200	\$374,760	\$7,560
Municipal Income Taxes	2,250,272	2,375,736	2,532,490	156,754
Charges for Services	423,254	433,412	487,217	53,805
Fees, Licenses, and Permits	62,840	66,344	68,037	1,693
Fines and Forfeitures	14,681	15,500	11,768	(3,732)
Intergovernmental	294,273	310,677	308,963	(1,714)
Interest	14,208	15,000	9,662	(5,338)
Other	74,973	65,726	106,458	40,732
Total Revenues	3,534,451	3,649,595	3,899,355	249,760
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,227,611	1,269,765	1,134,752	135,013
Fire	666,357	711,232	591,048	120,184
Other	91,760	121,788	92,036	29,752
Leisure Time Activities	20,550	20,550	20,340	210
Community Environment	34,175	181,424	132,544	48,880
Basic Utility Services	257,860	300,820	291,526	9,294
General Government	1,075,689	1,141,526	1,009,890	131,636
Total Expenditures	3,374,002	3,747,105	3,272,136	474,969
Excess of Revenues Over (Under) Expenditures	160,449	(97,510)	627,219	724,729
<u>Other Financing Uses</u>				
Transfers Out	(561,000)	(561,000)	(561,000)	0
Change in Fund Balance	(400,551)	(658,510)	66,219	724,729
Fund Balance Beginning of Year	1,435,221	1,435,221	1,435,221	0
Fund Balance End of Year	\$1,034,670	\$776,711	\$1,501,440	\$724,729

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Fund Net Position
Enterprise Funds
December 31, 2016

	Water	Sewer	Total Enterprise Funds
<u>Assets</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,043,594	\$935,177	\$1,978,771
Accounts Receivable	155,381	78,711	234,092
Accrued Interest Receivable	1,562	1,136	2,698
Due from Other Governments	7,466	0	7,466
Prepaid Items	2,240	3,259	5,499
Materials and Supplies Inventory	30,057	3,496	33,553
Special Assessments Receivable	0	984	984
Total Current Assets	1,240,300	1,022,763	2,263,063
<u>Non-Current Assets</u>			
Nondepreciable Capital Assets	2,322,697	19,443	2,342,140
Depreciable Capital Assets, Net	5,496,954	6,154,082	11,651,036
Total Non-Current Assets	7,819,651	6,173,525	13,993,176
Total Assets	9,059,951	7,196,288	16,256,239
<u>Deferred Outflows of Resources</u>			
Pension	68,806	70,019	138,825
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accrued Wages Payable	5,613	5,552	11,165
Accounts Payable	2,063	2,311	4,374
Contracts Payable	46,665	0	46,665
Due to Other Governments	38,684	59,373	98,057
Retainage Payable	91,551	0	91,551
Interfund Payable	250,000	0	250,000
Accrued Interest Payable	14,080	2,834	16,914
Notes Payable	1,169,802	78,552	1,248,354
General Obligation Bonds Payable	90,000	25,000	115,000
OPWC Loans Payable	16,215	23,381	39,596
OWDA Loans Payable	0	2,098	2,098
Due to Lucas County	6,742	137,996	144,738
Compensated Absences Payable	7,889	7,672	15,561
Total Current Liabilities	1,739,304	344,769	2,084,073
<u>Non-Current Liabilities</u>			
General Obligation Bonds Payable	2,810,000	335,000	3,145,000
OPWC Loans Payable	303,683	193,536	497,219
OWDA Loans Payable	0	33,195	33,195
Due to Lucas County	136,105	1,305,473	1,441,578
Compensated Absences Payable	8,257	3,504	11,761
Net Pension Liability	178,576	175,164	353,740
Total Non-Current Liabilities	3,436,621	2,045,872	5,482,493
Total Liabilities	5,175,925	2,390,641	7,566,566

City of Waterville
Statement of Fund Net Position
Enterprise Funds
December 31, 2016
(continued)

	Water	Sewer	Total Enterprise Funds
<u>Deferred Inflows of Resources</u>			
Pension	\$4,229	\$3,384	\$7,613
<u>Net Position</u>			
Net Investment in Capital Assets	3,480,628	5,482,763	8,963,391
Unrestricted (Deficit)	467,975	(610,481)	(142,506)
Total Net Position	\$3,948,603	\$4,872,282	\$8,820,885

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Revenues, Expenses,
and Change in Fund Net Position
Enterprise Funds
For the Year Ended December 31, 2016

	Water	Sewer	Total Enterprise Funds
<u>Operating Revenues</u>			
Charges for Services	\$1,582,085	\$805,733	\$2,387,818
Other	10,125	91	10,216
Total Operating Revenues	<u>1,592,210</u>	<u>805,824</u>	<u>2,398,034</u>
<u>Operating Expenses</u>			
Personal Services	223,804	234,240	458,044
Contractual Services	913,523	286,131	1,199,654
Materials and Supplies	49,165	36,403	85,568
Depreciation	229,849	238,888	468,737
Other	1,558	644	2,202
Total Operating Expenses	<u>1,417,899</u>	<u>796,306</u>	<u>2,214,205</u>
Operating Income	<u>174,311</u>	<u>9,518</u>	<u>183,829</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Revenue	18,889	8,186	27,075
Interest Expense	(106,696)	(70,260)	(176,956)
Total Non-Operating Revenues (Expenses)	(87,807)	(62,074)	(149,881)
Transfers In	<u>0</u>	<u>6,000</u>	<u>6,000</u>
Change in Net Position	86,504	(46,556)	39,948
Net Position Beginning of Year	<u>3,862,099</u>	<u>4,918,838</u>	<u>8,780,937</u>
Net Position End of Year	<u>\$3,948,603</u>	<u>\$4,872,282</u>	<u>\$8,820,885</u>

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2016

	Water	Sewer	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$1,596,609	\$821,476	\$2,418,085
Cash Received from Other Revenues	10,125	91	10,216
Cash Payments for Personal Services	(213,939)	(222,477)	(436,416)
Cash Payments for Contractual Services	(959,521)	(230,615)	(1,190,136)
Cash Payments to Vendors	(257,616)	(38,029)	(295,645)
Cash Payments for Other Expenses	(1,558)	(644)	(2,202)
Net Cash Provided by Operating Activities	<u>174,100</u>	<u>329,802</u>	<u>503,902</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Cash Received from Transfers In	0	6,000	6,000
Cash Received from Contributions	15,900	0	15,900
Cash Received from Advances In	<u>250,000</u>	<u>0</u>	<u>250,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>265,900</u>	<u>6,000</u>	<u>271,900</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on Bond Anticipation Notes	(848,761)	(360,201)	(1,208,962)
Principal Paid on General Obligation Bonds	(25,000)	(15,000)	(40,000)
Principal Paid on OPWC Loans	(12,637)	(23,319)	(35,956)
Principal Paid on OWDA Loans	0	(2,042)	(2,042)
Principal Paid to Lucas County	(20,228)	(90,096)	(110,324)
Interest Paid on Bond Anticipation Notes	(8,490)	(3,546)	(12,036)
Interest Paid on General Obligation Bonds	(95,681)	(11,250)	(106,931)
Interest Paid on OPWC Loans	0	(758)	(758)
Interest Paid on OWDA Loans	0	(1,013)	(1,013)
Interest Paid to Lucas County	0	(53,317)	(53,317)
Bond Anticipation Notes Issued	1,169,802	78,552	1,248,354
OPWC Loans Issued	135,634	0	135,634
Acquisition of Capital Assets	<u>(2,059,214)</u>	<u>0</u>	<u>(2,059,214)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,764,575)</u>	<u>(481,990)</u>	<u>(2,246,565)</u>
<u>Cash Flows from Investing Activities</u>			
Interest	<u>19,878</u>	<u>8,184</u>	<u>28,062</u>
Net Decrease in Cash and Cash Equivalents	(1,304,697)	(138,004)	(1,442,701)
Cash and Cash Equivalents Beginning of Year	<u>2,348,291</u>	<u>1,073,181</u>	<u>3,421,472</u>
Cash and Cash Equivalents End of Year	<u>\$1,043,594</u>	<u>\$935,177</u>	<u>\$1,978,771</u>

(continued)

City of Waterville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2016
(continued)

	Water	Sewer	Total Enterprise Funds
<u>Reconciliation of Operating Income to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Operating Income	\$174,311	\$9,518	\$183,829
<u>Adjustments to Reconcile Operating Income to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Depreciation	229,849	238,888	468,737
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	14,524	14,717	29,241
Increase in Prepaid Items	(43)	(51)	(94)
(Increase) Decrease in Materials and Supplies Inventory	(7,821)	90	(7,731)
Decrease in Special Assessments Receivable	0	1,026	1,026
Increase in Accrued Wages Payable	936	778	1,714
Increase (Decrease) in Accounts Payable	1,660	(3,091)	(1,431)
Decrease in Contracts Payable	(156,554)	0	(156,554)
Decrease in Retainage Payable	(45,530)	0	(45,530)
Increase (Decrease) in Due to Other Governments	(45,424)	57,687	12,263
Increase (Decrease) in Compensated Absences Payable	(403)	915	512
Decrease in Net Pension Liability	(1,061)	(4,332)	(5,393)
Decrease in Deferred Outflows - Pension	12,850	15,675	28,525
Decrease in Deferred Inflows - Pension	(3,194)	(2,018)	(5,212)
Net Cash Provided by Operating Activities	<u>\$174,100</u>	<u>\$329,802</u>	<u>\$503,902</u>

See Accompanying Notes to the Basic Financial Statements

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

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

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. There were no component units of the City of Waterville in 2016.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

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

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

C. Measurement Focus

Government-Wide Financial Statements

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the City, deferred outflows of resources are reported on the government-wide and enterprise funds statement of net position for pension and explained in Note 13 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accrued interest, intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, special assessments, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide and enterprise funds statement of net position and explained in Note 13 to the basic financial statements.

Expenses/Expenditures

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

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

E. Budgetary Process

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

F. Cash and Investments

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

During 2016, the City’s investments included negotiable certificates of deposit and STAR Ohio. Investments are reported at fair value, which is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board (GASB) statement No. 79, “Certain External Investment Pools and Pool Participants”. The City measures the investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The net asset value per share is calculated on an amortized cost basis that provides a net asset value per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant are combined for this purpose.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2016 was \$13,691, which includes \$4,738 assigned from other City funds.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Prepaid Items

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

H. Inventory

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

I. Capital Assets

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

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

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

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from interfund loans are reported as “Interfund Receivables/Payables”. Interfund balances are eliminated on the statement of net position.

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Position

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fund Balance

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

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

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

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

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

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by City Council. The City Council has authorized the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council has also assigned amounts to cover a gap between estimated resources and appropriations in the 2017 budget.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

O. Operating Revenues and Expenses

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

P. Interfund Transactions

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

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

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

Q. Pension

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

R. Estimates

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application”, GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68”, GASB Statement No. 76, “Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”, GASB Statement No. 77, “Tax Abatement Disclosures”, GASB Statement No. 79, “Certain External Investment Pools and Pool Participants”, and GASB Statement No. 82, “Pension Issues-an Amendment of GASB Statements No. 67, No. 69, and No. 73”.

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

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

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

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The implementation of this statement did not result in any change in the City’s financial statements as the City does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure, for financial reporting purposes, all of their investments at amortized cost. The statement provides accounting and financial reporting guidance that also establishes additional note disclosure requirements for governments that participate in these pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB Statement No. 79 guidance into the 2016 financial statements; however, there was no effect on beginning net position/fund balance.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Change in Fund Balance	
GAAP Basis	\$174,846
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2015, Received in Cash 2016	145,698
Accrued 2016, Not Yet Received in Cash	(254,989)
Expenditure Accruals:	
Accrued 2015, Paid in Cash 2016	(143,691)
Accrued 2016, Not Yet Paid in Cash	138,663
Cash Adjustments:	
Unrecorded Activity 2015	(3,327)
Unrecorded Activity 2016	(664)
Prepaid Items	(428)
Materials and Supplies Inventory	10,111
Budget Basis	\$66,219

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,024,015 of the City's bank balance of \$3,524,015 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

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

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>
Fair Value		
Negotiable Certificate of Deposit	\$25,117	6/8/17
Negotiable Certificate of Deposit	41,228	8/3/17
Negotiable Certificate of Deposit	48,277	8/17/17
Negotiable Certificate of Deposit	248,200	10/3/17
Negotiable Certificate of Deposit	326,511	12/18/17
Negotiable Certificate of Deposit	100,725	3/12/18
Negotiable Certificate of Deposit	200,224	3/27/18
Negotiable Certificate of Deposit	125,209	6/20/18
Negotiable Certificate of Deposit	203,472	11/27/18
Negotiable Certificate of Deposit	100,769	1/31/19

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>
Fair Value (continued)		
Negotiable Certificate of Deposit	101,265	8/5/19
Negotiable Certificate of Deposit	121,480	2/4/20
Negotiable Certificate of Deposit	101,826	8/5/20
Negotiable Certificate of Deposit	200,412	2/8/21
Net Value per Share		
Star Ohio	6,482	51.6 days
Total Investments	<u>\$1,951,197</u>	

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

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

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

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

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Negotiable Certificates of Deposit	\$1,944,715	99.7%

NOTE 6 - RECEIVABLES

Receivables at December 31, 2016, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; interfund; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; property taxes; and special assessments. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Special assessments receivable, in the amount of \$14,867, will not be received within one year. At December 31, 2016, the amount of delinquent special assessments was \$688.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 6 - RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$27,872
Local Government	117,768
City of Maumee	523
Total Major Funds	146,163
Nonmajor Funds	
Street Maintenance	
Gasoline Tax	\$90,950
Motor Vehicle License Tax	20,038
Total Street Maintenance	110,988
State Highway	
Gasoline Tax	7,374
Motor Vehicle License Tax	1,625
Total State Highway	8,999
Permissive Tax	
Permissive Tax	6,820
Police Pension	
Homestead and Rollback	2,460
Enforcement and Education	
City of Maumee	350
Law Enforcement FOJ	
City of Maumee	80
Total Nonmajor Funds	129,697
Total Governmental Activities	\$275,860
Business-Type Activity	
Water	
Ohio Public Works Loan	\$7,466

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 7 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 75 percent (up to 1.5 percent of the 2 percent income tax total) of the tax paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue was credited to the General Fund (1.5 percent) and to the Various Improvements capital projects fund (.5 percent) for 2016.

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2016 represent the collection of 2015 taxes. Real property taxes received in 2016 were levied after October 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2016 represent the collection of 2015 taxes. Public utility real and tangible personal property taxes received in 2016 became a lien on December 31, 2014, were levied after October 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2016, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been reported as deferred inflows of resources - unavailable revenue.

The full tax rate for all City operations for the year ended December 31, 2016, was \$3.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2016 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$107,809,870
Commercial/Industrial	14,929,400
Public Utility Real	21,320
Public Utility Personal	2,783,030
Total	\$125,543,620

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 9 - CAPITAL ASSETS

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

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$1,939,933	\$0	\$0	\$1,939,933
Total Nondepreciable Capital Assets	1,939,933	0	0	1,939,933
Depreciable Capital Assets				
Land Improvements	246,465	0	0	246,465
Buildings and Improvements	1,293,917	0	0	1,293,917
Furniture, Fixtures, and Equipment	903,173	0	0	903,173
Vehicles	2,233,316	212,694	(125,134)	2,320,876
Streets	28,260,124	237,863	0	28,497,987
Total Depreciable Capital Assets	32,936,995	450,557	(125,134)	33,262,418
Less Accumulated Depreciation for				
Land Improvements	(104,522)	(10,518)	0	(115,040)
Buildings and Improvements	(206,060)	(14,060)	0	(220,120)
Furniture, Fixtures, and Equipment	(574,335)	(34,432)	0	(608,767)
Vehicles	(1,185,040)	(79,653)	93,303	(1,171,390)
Streets	(17,238,052)	(732,258)	0	(17,970,310)
Total Accumulated Depreciation	(19,308,009)	(870,921)	93,303	(20,085,627)
Total Depreciable Capital Assets, Net	13,628,986	(420,364)	(31,831)	13,176,791
Governmental Activities Capital Assets, Net	<u>\$15,568,919</u>	<u>(\$420,364)</u>	<u>(\$31,831)</u>	<u>\$15,116,724</u>
	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$33,643	\$0	\$0	\$33,643
Construction in Progress	633,537	2,164,781	(489,821)	2,308,497
Total Nondepreciable Capital Assets	667,180	2,164,781	(489,821)	2,342,140
Depreciable Capital Assets				
Buildings and Improvements	148,393	0	0	148,393
Furniture, Fixtures, and Equipment	2,015,217	0	0	2,015,217
Vehicles	250,122	32,649	0	282,771
Water, Sewer, and Storm Sewer Lines	18,842,094	489,821	0	19,331,915
Total Depreciable Capital Assets	21,255,826	522,470	0	21,778,296

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 9 - CAPITAL ASSETS (continued)

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
Business-Type Activities (continued):				
Less Accumulated Depreciation for				
Buildings and Improvements	(\$66,481)	(\$2,403)	\$0	(\$68,884)
Furniture, Fixtures, and Equipment	(1,173,026)	(86,157)	0	(1,259,183)
Vehicles	(214,761)	(3,324)	0	(218,085)
Water, Sewer, and Storm Sewer Lines	(8,204,255)	(376,853)	0	(8,581,108)
Total Accumulated Depreciation	(9,658,523)	(468,737)	0	(10,127,260)
Total Depreciable Capital Assets, Net	11,597,303	53,733	0	11,651,036
Business-Type Activities Capital Assets, Net	<u>\$12,264,483</u>	<u>\$2,218,514</u>	<u>(\$489,821)</u>	<u>\$13,993,176</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$11,332
Security of Persons and Property - Fire	73,510
Leisure Time Activities	19,592
Transportation	755,922
General Government	10,565
Total Depreciation Expense - Governmental Activities	<u>\$870,921</u>

Note 10 - INTERFUND ASSETS/LIABILITIES

At December 31, 2016, the Various Improvements Fund had an interfund receivable from the Water Fund, in the amount of \$250,000, for a short-term loan made to the fund. This amount is expected to be repaid within one year.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2016, the City contracted with the Ohio Plan Risk Management, an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$10,684,220	\$1,000
Special Property	1,157,820	1,000

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 11 - RISK MANAGEMENT (continued)

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

There has been no significant reduction in insurance coverage from 2015 and no insurance settlement has exceeded insurance coverage during the last three years.

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

NOTE 12 - CONTRACTUAL COMMITMENTS

At December 31, 2016, the City had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Hank's Plumbing	Bowling Green Waterline Connection	\$379,662
Jones and Henry Engineers	Bowling Green Waterline Connection	44,560

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - Ohio Public Employees Retirement System (OPERS)

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013, or five years after January 7, 2013	20 years of service credit prior to January 7, 2013, or eligible to retire ten years after January 7, 2013	Members not in other groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 years
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

	State and Local	Public Safety	Law Enforcement
2016 Statutory Maximum Contribution Rates			
Employer	14.0%	18.1%	18.1%
Employee	10.0 %	*	**
 2016 Actual Contribution Rates			
Employer			
Pension	12.0 %	16.1 %	16.1 %
Postemployment Health Care Benefits	2.0	2.0	2.0
Total Employer	14.0 %	18.1 %	18.1 %
Total Employee	10.0 %	12.0 %	13.0 %

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$97,411 for 2016. Of this amount, \$12,128 is reported as an intergovernmental payable.

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

For members hired after July 1, 2013, the minimum retirement age is fifty-two for normal service retirement with at least twenty-five years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is forty-eight for normal service retirement with at least twenty-five years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first twenty years of service credit, 2 percent for each of the next five years of service credit, and 1.5 percent for each year of service credit in excess of twenty-five years. The maximum pension of 72 percent of the allowable average annual salary is paid after thirty-three years of service credit.

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

Members retiring under normal service retirement, with less than fifteen years of service credit on July 1, 2013, will receive a COLA equal to either 3 percent or the percent increase, if any, in the Consumer Price Index over the twelve month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least fifteen years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

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

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 2016 Actual Contribution Rates		
Employer		
Pension	19.00 %	23.50 %
Postemployment Health Care Benefits	.50	.50
Total Employer	19.50 %	24.00 %
Total Employee	12.25 %	12.25 %

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution was \$153,560 for 2016. Of this amount, \$20,379 is reported as an intergovernmental payable.

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

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

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Current Measurement Date	0.00615500%	0.03637100%	
Prior Measurement Date	<u>0.00612200%</u>	<u>0.03462640%</u>	
Change in Proportionate Share	<u>0.00003300%</u>	<u>0.00174460%</u>	
Proportionate Share of the Net			
Pension Liability	\$1,066,124	\$2,339,771	\$3,405,895
Pension Expense	\$150,702	\$332,535	\$483,237

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

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Deferred Outflows of Resources			
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$313,374	\$380,825	\$694,199
Changes in Proportion and Differences Between City Contributions and the Proportionate Share of Contributions	3,404	72,510	75,914
City Contributions Subsequent to the Measurement Date	<u>97,411</u>	<u>153,560</u>	<u>250,971</u>
Total Deferred Outflows of Resources	<u>\$414,189</u>	<u>\$606,895</u>	<u>\$1,021,084</u>
Deferred Inflows of Resources			
Difference Between Expected and Actual Experience	\$20,600	\$6,570	\$27,170
Changes in Proportion and Differences Between City Contributions and the Proportionate Share of Contributions	<u>778</u>	<u>0</u>	<u>778</u>
Total Deferred Inflows of Resources	<u>\$21,378</u>	<u>\$6,570</u>	<u>\$27,948</u>

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

\$250,971 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 as pension expense as follows.

Year Ending December 31,	OPERS	OPF	Total
2017	\$69,750	\$112,987	\$182,737
2018	74,761	112,987	187,748
2019	79,972	112,987	192,959
2020	70,917	91,178	162,095
2021	0	13,971	13,971
Thereafter	0	2,655	2,655
Total	\$295,400	\$446,765	\$742,165

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with GASB Statement No. 67. Key methods and assumptions used in the latest actuarial valuation are presented below.

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio, and the Defined Contribution portfolio. The Defined Benefits portfolio includes the investment assets of the traditional pension plan, the defined benefit component of the combined plan, the annuitized accounts of the member-directed plan, and the VEBA Trust. Within the Defined Benefits 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 investment expenses, for the Defined Benefits portfolio was .4 percent for 2015.

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

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's Proportionate Share of the Net Pension Liability	\$1,698,595	\$1,066,124	\$532,654

Changes Between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact the annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions - OPF

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

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	2.6 percent and 3 percent simple

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

Mortality rates are based on the RP-2000 Combined Table, age adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

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

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

Asset Class	Target Allocation	Ten Year Expected Real Rate of Return**	Thirty Year Expected Real Rate of Return**
Cash and Cash Equivalents	0.00 %	0.00 %	0.00 %
Domestic Equities	16.00	6.5	7.80
Non-U.S. Equities	16.00	6.7	8.00
Core Fixed Income*	20.00	3.5	5.35
Global Inflation Protected*	20.00	3.5	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.8	7.43
Private Markets	8.00	9.5	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

Note: assumptions are geometric

* levered 2x

** numbers are net of expected inflation

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's Proportionate Share of the Net Pension Liability	\$3,085,846	\$2,339,771	\$1,707,774

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB) as described in GASB Statement No. 45. See OPERS' CAFR referenced below for additional information.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed 14 percent of earnable salary and public safety and law enforcement employers contributed 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees and the traditional pension and combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund the health care plans. As recommended by the OPERS actuary, the portion of the employer contribution allocated to health care beginning January 1, 2016, remained at 2 percent for both the traditional pension and combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a retiree medical account for member-directed plan members. The employer contribution as a percentage of covered payroll deposited into the retiree medical accounts for 2016 was 4 percent.

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

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing multiple-employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$16,235, \$15,322, and \$15,012, respectively. For 2016, 88 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

B. Police and Fire Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

The City's contribution to OPF for the years ended December 31, 2016, 2015, and 2014, was \$157,464, \$160,002, and \$148,655, respectively, of which \$3,904, \$3,992, and \$3,746 was allocated to the health care plan. For 2016, 92 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

NOTE 15 - COMPENSATED ABSENCES

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

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

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

NOTE 16 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2016, were as follows:

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
<u>Governmental Activities</u>					
General Obligation Bond					
Anticipation Notes					
2015 Various Purpose	1.0%	\$206,392	\$0	\$206,392	\$0
2016 Various Purpose	1.25	0	151,438	0	151,438
Total Bond Anticipation Notes		<u>\$206,392</u>	<u>\$151,438</u>	<u>\$206,392</u>	<u>\$151,438</u>
<u>Business-Type Activities</u>					
General Obligation Bond					
Anticipation Notes					
Enterprise Funds					
2015 Water Improvements	1.0%	\$848,761	\$0	\$848,761	\$0
2016 Water Improvements	1.25	0	1,169,802	0	1,169,802
2015 Wastewater Improvements	1.0	360,201	0	360,201	0
2016 Wastewater Improvements	1.25	0	78,552	0	78,552
Total Bond Anticipation Notes		<u>\$1,208,962</u>	<u>\$1,248,354</u>	<u>\$1,208,962</u>	<u>\$1,248,354</u>

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 16 - NOTES PAYABLE (continued)

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

The bond anticipation notes, in the amount of \$151,438, were issued on July 26, 2016, to partially retire notes previously issued in 2015 for various purposes. The notes have an interest rate of 1.25 percent and mature on July 26, 2017. The notes will be paid from the Various Improvements capital projects fund. As of December 31, 2016, all proceeds were spent.

The bond anticipation notes in the Water enterprise fund, in the amount of \$1,169,802, were issued on July 26, 2016, to partially retire notes previously issued as well as for additional resources to improve water lines. The notes have an interest rate of 1.25 percent and mature on July 26, 2017. As of December 31, 2016, all proceeds were spent.

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$78,552, were issued on July 26, 2016, to partially retire notes previously issued to improve sanitary sewer lines and storm sewer lines. The notes have an interest rate of 1.25 percent and mature on July 26, 2017. As of December 31, 2016, all proceeds were spent.

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2016, was as follows:

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<u>Governmental Activities</u>						
Bond Anticipation Notes						
2015 Various Purpose	1.0%	\$511,646	\$0	\$511,646	\$0	\$0
2016 Various Purpose	1.25	0	360,208	0	360,208	360,208
Total Bond Anticipation Notes		511,646	360,208	511,646	360,208	360,208
General Obligation Bonds						
2012 Various Purpose Refunding (Original Amount \$2,545,000)	2	2,075,000	0	140,000	1,935,000	140,000
OPWC Loans						
1999 OPWC Loans Payable (Original Amount \$157,946)	0	27,641	0	7,897	19,744	7,898
2008 OPWC Loans Payable (Original Amount \$246,242)	0	153,901	0	12,312	141,589	12,312
Total OPWC Loans		181,542	0	20,209	161,333	20,210

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Other Long-Term Obligations						
Net Pension Liability						
Ohio Public Employees Retirement System		\$494,715	\$217,669	\$0	\$712,384	\$0
Ohio Police and Fire Pension		1,793,792	545,979	0	2,339,771	0
Total Net Pension Liability		2,288,507	763,648	0	3,052,155	0
Compensated Absences Payable		147,632	14,902	0	162,534	75,280
Total Governmental Activities		\$5,204,327	\$1,138,758	\$671,855	\$5,671,230	\$595,698
	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<u>Business-Type Activities</u>						
General Obligation Bonds						
2015 Various Purpose (Original Amount \$3,300,000)	3 - 3.875%	\$3,300,000	\$0	\$40,000	\$3,260,000	\$115,000
OPWC Loans						
1999 OPWC Loans Payable (Original Amount \$128,489)	0%	22,487	0	6,426	16,061	6,424
2004 OPWC Loans Payable (Original Amount \$57,585)	0	25,915	0	2,881	23,034	2,879
2006 OPWC Loans Payable (Original Amount \$129,202)	.01	77,423	0	6,386	71,037	6,450
2009 OPWC Loans Payable (Original Amount \$127,307)	0	85,934	0	6,364	79,570	6,365
2010 OPWC Loans Payable (Original Amount \$152,550)	0	114,411	0	7,626	106,785	7,628
2011 OPWC Loans Payable (Original Amount \$125,456)	0	103,501	0	6,273	97,228	6,272
2015 OPWC Loans Payable (Original Amount \$135,634)	0	135,634	7,466	0	143,100	3,578
Total OPWC Loans		565,305	7,466	35,956	536,815	39,596
OWDA Loans						
2010 OWDA Loans Payable (Original Amount \$172,380)	2.75	37,335	0	2,042	35,293	2,098
Other Long-Term Obligations						
Net Pension Liability						
Ohio Public Employees Retirement System		243,667	110,073	0	353,740	0
Due to Lucas County		1,696,640	0	110,324	1,586,316	144,738
Compensated Absences Payable		26,810	512	0	27,322	15,561
Total Other Long-Term Obligations		1,967,117	110,585	110,324	1,967,378	160,299
Total Business-Type Activities		\$5,869,757	\$118,051	\$188,322	\$5,799,486	\$316,993

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Bond Anticipation Notes

On July 26, 2016, the City issued bond anticipation notes, in the amount of \$360,208 to partially retire notes previously issued in 2015 for various purposes. The notes have an interest rate of 1.25 percent and mature on July 26, 2017. The notes will be paid from the Various Improvements capital projects fund.

General Obligation Bonds

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

At December 31, 2016, \$1,110,000 of the refunded bonds was still outstanding.

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

<u>Year</u>	<u>Amount</u>
2019	\$140,000

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

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

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

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

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

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

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

Year	Amount
2025	\$170,000

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

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

Year	Amount
2027	\$55,000
2028	55,000
2029	55,000
2030	60,000

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

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

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

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

The serial bonds maturing on or after December 1, 2022, are subject to optional redemption prior to maturity, either in whole or in part, in inverse order of maturity, in integral multiples of \$5,000, on any date on or after December 31, 2012, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

As of December 31, 2016, the City had unspent proceeds of \$188,893.

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

<u>Year</u>	<u>Amount</u>
2021	\$125,000

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

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

<u>Year</u>	<u>Amount</u>
2023	\$125,000

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

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

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

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

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

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

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

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

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

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

Year	Amount
2031	\$155,000

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

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

Year	Amount
2033	\$105,000
2034	110,000

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

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

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

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

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

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

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

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

OPWC Loans Payable

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

OWDA Loans Payable

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

The OPWC and OWDA loans for water and sewer projects are to be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans are \$540,789 and \$42,760, respectively. Principal and interest paid for the current year and net revenues were \$12,367 and \$404,160 for the Water enterprise fund and \$27,132 and \$248,406 for the Sewer enterprise fund.

Net Pension Liability

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

Due to Lucas County

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

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

Compensated Absences

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The City's legal debt margin was \$10,574,101 at December 31, 2016.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2016, were as follows:

Year	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2017	\$140,000	\$56,688	\$20,210
2018	145,000	53,887	20,209
2019	140,000	50,988	16,261
2020	145,000	47,487	12,312
2021	145,000	43,863	12,312
2022-2026	845,000	147,872	61,561
2027-2031	285,000	47,888	18,468
2032-2035	90,000	7,087	0
Total	\$1,935,000	\$455,760	\$161,333

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016, from the business-type activities were as follows:

Year	General Obligation Bonds	
	Principal	Interest
2017	\$115,000	\$105,731
2018	120,000	102,281
2019	120,000	98,681
2020	120,000	95,081
2021	125,000	91,481
2022-2026	650,000	400,705
2027-2031	750,000	297,055
2032-2036	610,000	186,709
2037-2041	650,000	77,039
Total	\$3,260,000	\$1,454,763

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Year	OPWC Loans		OWDA Loans		Due to Lucas County
	Principal	Interest	Principal	Interest	Principal
2017	\$39,596	\$694	\$2,098	\$956	\$144,738
2018	43,237	630	2,157	898	102,520
2019	40,092	564	2,216	838	105,666
2020	36,944	499	2,277	777	108,935
2021	37,011	432	2,340	714	112,330
2022-2026	180,322	1,137	12,711	2,562	617,384
2027-2031	117,113	18	11,494	722	394,743
2032-2036	38,923	0	0	0	0
2037	3,577	0	0	0	0
Total	<u>\$536,815</u>	<u>\$3,974</u>	<u>\$35,293</u>	<u>\$7,467</u>	<u>\$1,586,316</u>

NOTE 18 - FUND BALANCE

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

Fund Balance	General	Various Improvements	Other Governmental	Total Governmental Funds
Nonspendable for:				
Prepaid Items	\$18,736	\$0	\$4,945	\$23,681
Materials and Supplies				
Inventory	9,206	0	29,312	38,518
Total Nonspendable	<u>27,942</u>	<u>0</u>	<u>34,257</u>	<u>62,199</u>
Restricted for:				
Permanent Improvements	0	1,312,752	0	1,312,752
Police Department Operations	0	0	23,931	23,931
Street Construction and Maintenance	0	0	276,869	276,869
Total Restricted	<u>0</u>	<u>1,312,752</u>	<u>300,800</u>	<u>1,613,552</u>
Committed for:				
Parks and Green Space Improvement	0	0	151,513	151,513
Future Severance Payments	53,691	0	0	53,691
Total Committed	<u>53,691</u>	<u>0</u>	<u>151,513</u>	<u>205,204</u>
Assigned for				
Projected Budget Shortage	498,702	0	0	498,702
Unassigned	1,066,037	0	0	1,066,037
Total Fund Balance	<u>\$1,646,372</u>	<u>\$1,312,752</u>	<u>\$486,570</u>	<u>\$3,445,694</u>

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016
(continued)

NOTE 19 - INTERFUND TRANSFERS

During 2016, the General Fund made transfers to the Various Improvements capital projects fund and the Sewer enterprise fund, in the amount of \$475,000 and \$6,000, respectively, as debt payments became due. The General Fund also made transfers to other governmental funds, in the amount of \$80,000, to subsidize activities of the various funds.

NOTE 20 - INSURANCE POOL

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

NOTE 21 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2016, to December 31, 2016, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 22 - SUBSEQUENT EVENT

On July 25, 2017, the City issued bond anticipation notes, in the amount of \$1,525,000, to retire notes previously issued. The notes have an interest rate of 2 percent and mature on July 25, 2018.

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

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

(1) Information prior to 2014 is not available.

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

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

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

(1) Information prior to 2014 is not available.

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

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

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

(1) Information prior to 2014 is not available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$153,560	\$156,010	\$144,909	\$123,839
Contributions in Relation to the Contractually Required Contribution	<u>(153,560)</u>	<u>(156,010)</u>	<u>(144,909)</u>	<u>(123,839)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$780,794	\$798,325	\$749,103	\$758,514
Contributions as a Percentage of Covered Payroll	19.67%	19.54%	19.34%	16.33%

(1) Information prior to 2009 is not available.

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

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Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas County, Ohio (the City) as of and for the year ended December 31, 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 October 30, 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 opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

October 30, 2017



Dave Yost • Auditor of State

CITY OF WATERVILLE

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 14, 2017