

**CITY OF NORWALK
HURON COUNTY**

REGULAR AUDIT

JANUARY 1, 2019 – DECEMBER 31, 2019



WILSON, SHANNON & SNOW
INC.
CPAs & ADVISORS

OHIO AUDITOR OF STATE
KEITH FABER



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Members of City Council and Management
City of Norwalk
38 Whittlesey Ave.
P.O. Box 30
Norwalk, Ohio 44857

We have reviewed the *Independent Auditor's Report* of the City of Norwalk, Huron County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2019 through December 31, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

July 9, 2020

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**CITY OF NORWALK
HURON COUNTY, OHIO**

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HURON COUNTY, OHIO**

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City of Norwalk
Huron County
38 Whittlesey Avenue
P.O. Box 30
Norwalk, Ohio 44857

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management:

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 Norwalk, Huron County, Ohio (the City), as of and for the year ended December 31, 2019, 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.

Opinions

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 Norwalk, Huron County, Ohio, as of December 31, 2019, 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.

Emphasis of Matter

As discussed in Note 20 to the financial statements, during 2019, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.

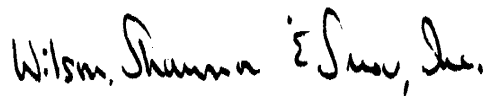
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020, 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.



June 22, 2020
Newark, Ohio

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

The management's discussion and analysis of the City of Norwalk's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- The total net position of the City increased \$4,516,908 from 2018 net position. Net position of governmental activities increased \$4,349,379 or 30% over the 2018 net position of \$14,272,617 and net position of business-type activities increased \$167,529 or 1% from 2018 net position of \$29,643,058.
- General revenues and transfers accounted for \$9,808,890, or 67% of total governmental activities revenue. Program specific revenues accounted for \$4,826,105 or 33% of total governmental activities revenue.
- The City had \$10,285,616 in expenses related to governmental activities; \$4,826,105 of these expenses was offset by program specific charges for services and sales, grants or contributions. The remaining expenses of the governmental activities of \$5,459,511 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) and transfers of \$9,808,890.
- The general fund had revenues of \$8,760,331 in 2019. This represents an increase of \$1,111,997 from 2018 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$8,120,898 in 2019 increased \$216,651 from 2018 expenditures and other financing uses. The net increase in fund balance for the general fund was \$639,433 or 25%.
- The general capital improvements fund had revenues of \$1,460,798 in 2019. The expenditures of the general capital improvements fund totaled \$1,940,447 in 2019. The net decrease in fund balance was \$479,649 from 2018.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

The statement of net position and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2019?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

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

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, parks and recreation, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer, water, sanitation and storm water operations are reported here.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds.

Governmental Funds

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

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 in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and the general capital improvements fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water, sanitation and storm water management functions.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

All of the enterprise funds are considered major funds with the exception of the storm water fund.

Fiduciary Funds

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

Government-Wide Financial Analysis

The statement of net position serves as a useful indicator of a government's financial position (reclassifications are presented for 2018 Governmental Activities).

	Governmental Activities 2019	Business-type Activities 2019	Governmental Activities 2018	Business-type Activities 2018	Total 2019	Total 2018
Assets						
Current and other assets	\$ 12,643,150	\$ 8,410,086	\$ 11,310,156	\$ 7,361,499	\$ 21,053,236	\$ 18,671,655
Nondepreciable capital assets	3,173,377	309,951	3,146,079	45,261	3,483,328	3,191,340
Depreciable capital assets, net	20,479,261	40,522,012	21,059,815	41,352,220	61,001,273	62,412,035
Capital assets, net	<u>23,652,638</u>	<u>40,831,963</u>	<u>24,205,894</u>	<u>41,397,481</u>	<u>64,484,601</u>	<u>65,603,375</u>
Total assets	<u>36,295,788</u>	<u>49,242,049</u>	<u>35,516,050</u>	<u>48,758,980</u>	<u>85,537,837</u>	<u>84,275,030</u>
Deferred outflows of resources	<u>3,934,041</u>	<u>1,692,132</u>	<u>2,516,075</u>	<u>843,858</u>	<u>5,626,173</u>	<u>3,359,933</u>
Liabilities						
Current and other liabilities	646,512	570,334	389,357	154,401	1,216,846	543,758
Long-term liabilities:						
Due within one year	610,657	1,285,477	423,219	923,457	1,896,134	1,346,676
Net pension liability	13,815,284	5,129,353	9,648,009	2,992,058	18,944,637	12,640,067
Net OPEB liability	2,977,511	2,476,086	8,408,232	2,101,430	5,453,597	10,509,662
Due in more than one year	<u>1,752,138</u>	<u>11,588,275</u>	<u>1,950,212</u>	<u>12,930,570</u>	<u>13,340,413</u>	<u>14,880,782</u>
Total liabilities	<u>19,802,102</u>	<u>21,049,525</u>	<u>20,819,029</u>	<u>19,101,916</u>	<u>40,851,627</u>	<u>39,920,945</u>
Deferred inflows of resources	<u>1,805,731</u>	<u>74,069</u>	<u>2,940,479</u>	<u>857,864</u>	<u>1,879,800</u>	<u>3,798,343</u>
Net Position						
Net investment in capital assets	22,504,640	28,292,971	22,915,628	28,008,717	50,797,611	50,924,345
Restricted	3,449,879	-	2,857,847	-	3,449,879	2,857,847
Unrestricted	<u>(7,332,523)</u>	<u>1,517,616</u>	<u>(11,500,858)</u>	<u>1,634,341</u>	<u>(5,814,907)</u>	<u>(9,866,517)</u>
Total net position	<u>\$ 18,621,996</u>	<u>\$ 29,810,587</u>	<u>\$ 14,272,617</u>	<u>\$ 29,643,058</u>	<u>\$ 48,432,583</u>	<u>\$ 43,915,675</u>

Over time, net position can serve as a useful indicator of a government's financial position. At year-end, net position was \$48,432,583 that comprised \$18,621,996 and \$29,810,587 for the governmental activities and the business-type activities, respectively.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 59% and 80% of total assets and deferred outflows of resources for the governmental activities and business-type activities, respectively. Capital assets include land, construction in progress, land improvements, buildings, equipment and infrastructure. The City's net investment in capital assets at December 31, 2019, were \$22,504,640 and \$28,292,971 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A portion of the City's net position, \$3,449,879 represents resources that are subject to external restriction on how they may be used.

The following table shows the changes in net position for 2019 and 2018.

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**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

	Change in Net Position					
	Governmental	Business-type	Governmental	Business-type	Total	Total
	Activities	Activities	Activities	Activities	2019	2018
	2019	2019	2018	2018	2019	2018
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,495,203	\$ 7,768,097	\$ 2,345,341	\$ 7,703,971	\$ 10,263,300	\$ 10,049,312
Operating grants and contributions	1,927,872	-	1,691,961	-	1,927,872	1,691,961
Capital grants and contributions	403,030	320,930	2,020,727	44,520	723,960	2,065,247
Total program revenues	4,826,105	8,089,027	6,058,029	7,748,491	12,915,132	13,806,520
General revenues:						
Property and other local taxes	1,390,459	-	1,102,691	-	1,390,459	1,102,691
Income taxes	6,721,397	1,344,609	6,369,137	1,273,805	8,066,006	7,642,942
Shared revenues	147,995	-	139,883	-	147,995	139,883
Payment in lieu of taxes	10,931	-	42,231	-	10,931	42,231
Grants and entitlements	637,363	-	565,515	-	637,363	565,515
Investment earnings	516,024	-	142,719	-	516,024	142,719
Other	282,279	75,382	631,074	141,614	357,661	772,688
Total general revenues	9,706,448	1,419,991	8,993,250	1,415,419	11,126,439	10,408,669
Total revenues	14,532,553	9,509,018	15,051,279	9,163,910	24,041,571	24,215,189
Program Expenses:						
General government	3,255,854	-	2,644,195	-	3,255,854	2,644,195
Security of persons and property	1,553,332	-	8,855,962	-	1,553,332	8,855,962
Public health and welfare	108,249	-	86,173	-	108,249	86,173
Transportation	2,210,674	-	1,981,653	-	2,210,674	1,981,653
Community environment & development	478,503	-	426,904	-	478,503	426,904
Leisure time activity	2,597,404	-	2,166,464	-	2,597,404	2,166,464
Utility services	15,908	-	-	-	15,908	-
Interest and fiscal charges	65,692	-	51,954	-	65,692	51,954
Sanitation	-	1,690,580	-	1,646,198	1,690,580	1,646,198
Sewer	-	3,723,123	-	3,431,662	3,723,123	3,431,662
Water	-	3,555,070	-	3,062,522	3,555,070	3,062,522
Storm water	-	270,274	-	333,755	270,274	333,755
Total expenses	10,285,616	9,239,047	16,213,305	8,474,137	19,524,663	24,687,442
Change in net position before transfers	4,246,937	269,971	(1,162,026)	689,773	4,516,908	(472,253)
Transfers	102,442	(102,442)	26,955	(26,955)	-	-
Increase (decrease) in net position	4,349,379	167,529	(1,135,071)	662,818	4,516,908	(472,253)
Net position beginning of year	14,272,617	29,643,058	15,407,688	28,980,240	43,915,675	44,387,928
Net position end of year	\$ 18,621,996	\$ 29,810,587	\$ 14,272,617	\$ 29,643,058	\$ 48,432,583	\$ 43,915,675

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

Governmental Activities

Governmental activities net position increased \$4,349,379 in 2019 and is primarily attributed to the method which the City's retirement system, Ohio Police and Fire, changed the methodology for Other postemployment benefit contributions and benefit payments. This resulted in a significant decrease in expenses between years.

General government expenses totaled \$3,255,854 and were partially funded by \$1,061,890 in charges for services and sales and \$71,304 in operating grants and contributions.

Operating grants and contributions relate to federal, state and local revenues which totaled \$1,927,872. These revenues are restricted for security of persons and property, transportation and community environment and development purposes. Capital grants and contributions of \$403,030 were primarily for construction of the City's new bike paths and trails constructed in 2019.

General revenues and transfers totaled \$9,808,890 and primarily consist of property and income tax revenue of \$8,111,856. The other primary source of general revenues is unrestricted grants totaling \$637,363.

The statement of activities shows the cost of program services and the charges for services and sales and grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2019 compared to 2018. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

Governmental Activities - Program Revenues vs. Total Expenses
Governmental Activities

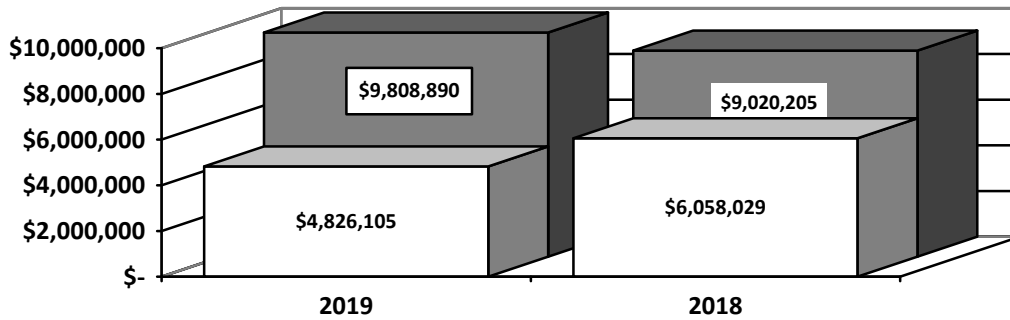
	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 3,255,854	\$ 2,122,660	\$ 2,644,195	\$ 1,279,662
Security of persons & property	1,553,332	1,104,546	8,855,962	7,735,405
Public health and welfare	108,249	108,249	86,173	86,173
Transportation	2,210,674	697,228	1,981,653	35,739
Community environment & development	478,503	(27,921)	426,904	122,821
Leisure time activity	2,597,404	1,373,149	2,166,464	843,522
Utility services	15,908	15,908	-	-
Interest and fiscal charges	65,692	65,692	51,954	51,954
	<u>65,692</u>	<u>65,692</u>	<u>51,954</u>	<u>51,954</u>
Total	<u>\$ 10,285,616</u>	<u>\$ 5,459,511</u>	<u>\$ 16,213,305</u>	<u>\$ 10,155,276</u>

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

The chart below illustrates the City's program revenues versus general revenues for 2019 and 2018.

Governmental Activities – General and Program Revenues

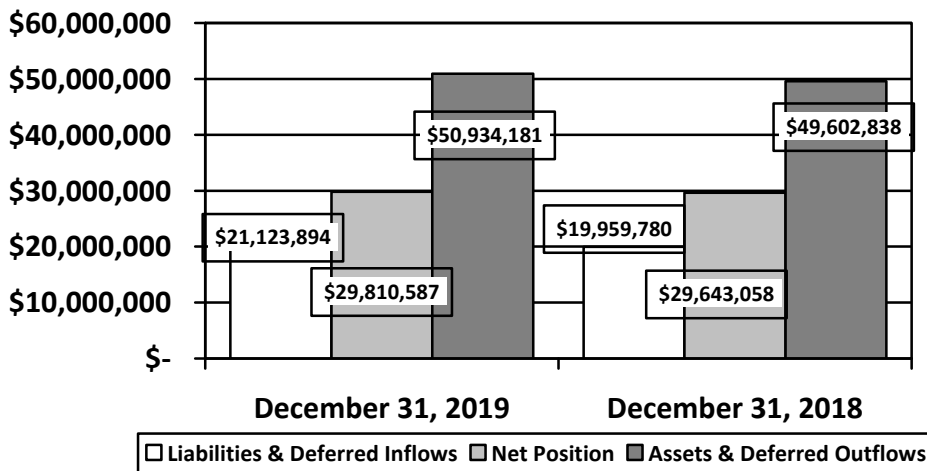


□ Program Revenues ■ General Revenues and Transfers

Business-type Activities

Business-type activities include the water, sewer, sanitation and storm water enterprise funds. The graph below shows the business-type activities assets and deferred outflows, liabilities and deferred inflows and net position at year-end.

Net Position in Business - Type Activities



□ Liabilities & Deferred Inflows ■ Net Position ■ Assets & Deferred Outflows

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

Net Pension and Other Postemployment Benefit Liabilities

The net pension liability (NPL) reported by the City at December 31, 2019 is reported pursuant to GASB Statement 68, *“Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27”* as well as the net OPEB liability reported pursuant to GASB Statement 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with accounting principles generally accepted in the United States of America. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds reported a combined fund balance of \$8,828,592 which is \$964,162 higher than last year's total of \$7,864,430. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2019 for all major and non-major governmental funds.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

	Fund Balances 12/31/2019	Fund Balances 12/31/2018	Increase (Decrease)
Major funds:			
General fund	\$ 3,212,201	\$ 2,572,768	\$ 639,433
General capital improvement fund	501,252	980,901	(479,649)
Other governmental funds	5,115,139	4,310,761	804,378
Total	<u>\$ 8,828,592</u>	<u>\$ 7,864,430</u>	<u>\$ 964,162</u>

General Fund

The City's general fund balance increased \$639,433. The table that follows assists in illustrating the revenues of the general fund.

	2019 Amount	2018 Amount	Percentage Change
Revenues			
Property and other taxes	\$ 634,090	\$ 595,149	6.54 %
Income taxes	5,598,540	4,618,284	21.23 %
Shared revenues	112,210	104,389	7.49 %
Special assessments	2,859	1,650	73.27 %
Charges for services	73,794	90,674	(18.62) %
Licenses and permits	240,769	239,117	0.69 %
Fines and forfeitures	697,381	653,843	6.66 %
Intergovernmental	748,656	743,278	0.72 %
Investment income	528,987	122,693	331.15 %
Other	123,045	391,204	(68.55) %
Total	<u>\$ 8,760,331</u>	<u>\$ 7,560,281</u>	15.87 %

The City's largest revenue source in the general fund was income tax revenue, which represents 64% of all general fund revenue and increased 21% from the prior year. The increase is primarily attributed to the timing of payments received during the availability when compared to the prior year and is not indicative of future collections based on the impact of the COVID-19 virus. Investment income increased significantly based on the nature of City investments and change in fair value.

The table that follows assists in illustrating the expenditures of the general fund.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

	2019 Amount	2018 Amount	Percentage Change
<u>Expenditures</u>			
General government	\$ 2,070,063	\$ 2,051,197	0.92 %
Security of persons and property	4,637,532	4,478,720	3.55 %
Public health and welfare	108,249	86,173	25.62 %
Transportation	9,918	9,656	2.71 %
Community environment and development	28,127	14,201	98.06 %
Capital outlay	201,986	415,584	(51.40) %
Debt service	12,706	12,396	2.50 %
Total	<u>\$ 7,068,581</u>	<u>\$ 7,067,927</u>	0.01 %

Total general fund expenditures were flat from the prior year.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly. Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$393,922 higher than they were in the final budget and actual expenditures and other financing uses were \$815,194 less than the amount in the final budget.

General Capital Improvements Fund

The general capital improvements fund had revenues of \$1,460,798 in 2019. The expenditures of the general capital improvements fund totaled \$1,940,447 in 2019. The net decrease in fund balance was \$479,649 from 2018.

Capital Assets and Debt Administration

Capital Assets

At the end of 2019, the City had \$64,484,601 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, equipment, and infrastructure. Of this total, \$23,652,638 was reported in governmental activities and \$40,831,963 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows 2019 balances compared to balances for 2018.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

**Capital Assets at December 31
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,057,434	\$ 3,125,695	\$ 45,261	\$ 45,261	\$ 3,102,695	\$ 3,170,956
Construction in progress	115,943	20,384	264,690	-	380,633	20,384
Land improvements	853,997	928,325	166,083	187,382	1,020,080	1,115,707
Buildings	9,446,977	9,582,096	9,316,228	9,517,486	18,763,205	19,099,582
Equipment	2,212,501	2,265,710	2,979,785	3,150,378	5,192,286	5,416,088
Infrastructure	7,965,786	8,283,684	28,059,916	28,496,974	36,025,702	36,780,658
Totals	<u>\$ 23,652,638</u>	<u>\$ 24,205,894</u>	<u>\$ 40,831,963</u>	<u>\$ 41,397,481</u>	<u>\$ 64,484,601</u>	<u>\$ 65,603,375</u>

The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 34% of the City's total governmental activities and 69% of the business-type activity capital assets.

Debt Administration

The City had the following debt obligations outstanding at December 31, 2019 and 2018:

	Governmental Activities	
	2019	2018
OPWC loans	\$ 172,955	\$ 105,033
OWDA loans	165,510	243,592
Capital leases	709,366	941,641
Police and fire pension	313,669	327,780
Total debt obligations	<u>\$ 1,361,500</u>	<u>\$ 1,618,046</u>
	Business-type Activities	
	2019	2018
OPWC loans	\$ 189,275	\$ 209,859
OWDA loans	11,881,955	12,868,747
Capital leases	236,841	310,158
Total debt obligations	<u>\$ 12,308,071</u>	<u>\$ 13,388,764</u>

See Notes 10 and 11 to the basic financial statements for detail on the City's debt obligations.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

Economic Factors and Next Year's Budget and Rates

The City continues to closely monitor the revenue and expenditures. Income tax collections, the City's primary source of General fund cash basis revenue, increased (cash basis) from 2018 to 2019. The City has continued to budget conservatively.

In addition, the following items were taken into consideration during preparation of the 2020 budget: 1) Interest rates continue to be lower than historical levels; 2) The cost of repair and replacement of City infrastructure continues to increase; and 3) Income Tax Revenue is budgeted to increase in 2020, however, the impact of the COVID-19 pandemic may impact these projections.

The United States of America and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The City is cognizant of the potential financial impact the pandemic will have on operations and providing services to our residents. It is anticipated that budget revisions will occur that may impact the level of services provided; however, it is the City's intent to try to minimize any material disruptions so long as the City's financial policies remain in place.

Contacting the City's Financial Management

This financial report is designed to provide an overview and accountability of the City's finances. If you have questions about this report or need additional financial information, contact the Finance Director, City of Norwalk, 38 Whittlesey Avenue, P.O. Box 30, Norwalk, Ohio 44857.

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 6,612,529	\$ 7,350,490	\$ 13,963,019
Cash in segregated accounts	2,954	-	2,954
Receivables:			
Income taxes	1,763,315	352,705	2,116,020
Property and other taxes	1,374,401	-	1,374,401
Accounts	80,121	622,787	702,908
Payments in lieu of taxes	115,698	-	115,698
Accrued interest	40,246	-	40,246
Special assessments	41,117	11,688	52,805
Due from other governments	1,397,784	-	1,397,784
Notes receivable	1,153,759	-	1,153,759
Materials and supplies inventory	61,226	72,416	133,642
Capital assets:			
Nondepreciable capital assets	3,173,377	309,951	3,483,328
Depreciable capital assets, net	20,479,261	40,522,012	61,001,273
Total capital assets, net	23,652,638	40,831,963	64,484,601
Total assets	36,295,788	49,242,049	85,537,837
Deferred outflows of resources:			
OPEB	166,539	194,184	360,723
Pension	3,767,502	1,497,948	5,265,450
Total deferred outflows of resources	3,934,041	1,692,132	5,626,173
Total assets and deferred outflows of resources	40,229,829	50,934,181	91,164,010
Liabilities:			
Accounts payable	234,750	211,703	446,453
Contracts payable	100,167	230,921	331,088
Accrued wages and benefits payable	195,036	87,903	282,939
Due to other governments	116,559	39,807	156,366
Due within one year	610,657	1,285,477	1,896,134
Due in more than one year:			
Net pension liability	13,815,284	5,129,353	18,944,637
Net OPEB liability	2,977,511	2,476,086	5,453,597
Other amount due in more than one year	1,752,138	11,588,275	13,340,413
Total liabilities	19,802,102	21,049,525	40,851,627
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	1,326,970	-	1,326,970
Payment in lieu of tax revenue not available	115,698	-	115,698
OPEB	312,254	6,718	318,972
Pension	50,809	67,351	118,160
Total deferred inflows of resources	1,805,731	74,069	1,879,800
Total liabilities and deferred inflows of resources	21,607,833	21,123,594	42,731,427
Net position:			
Net investment in capital assets	22,504,640	28,292,971	50,797,611
Restricted for:			
Capital projects	812,746	-	812,746
Municipal court and programs	944,596	-	944,596
Transportation	1,046,319	-	1,046,319
Community development	646,218	-	646,218
Unrestricted	(7,332,523)	1,517,616	(5,814,907)
Total net position	\$ 18,621,996	\$ 29,810,587	\$ 48,432,583

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,255,854	\$ 1,061,890	\$ 71,304	\$ -	\$ (2,122,660)	\$ -	\$ (2,122,660)
Security of persons and property	1,553,332	318,318	130,468	-	(1,104,546)	-	(1,104,546)
Public health and welfare	108,249	-	-	-	(108,249)	-	(108,249)
Transportation	2,210,674	60	1,308,131	205,255	(697,228)	-	(697,228)
Community environment	478,503	2,680	417,969	85,775	27,921	-	27,921
Leisure time activity	2,597,404	1,112,255	-	112,000	(1,373,149)	-	(1,373,149)
Utility services	15,908	-	-	-	(15,908)	-	(15,908)
Interest and fiscal charges	65,692	-	-	-	(65,692)	-	(65,692)
Total governmental activities	10,285,616	2,495,203	1,927,872	403,030	(5,459,511)	-	(5,459,511)
Business-type activities:							
Water	3,555,070	3,571,715	-	-	-	16,645	16,645
Sewer	3,723,123	3,945,460	-	-	-	222,337	222,337
Sanitation	1,690,580	10,909	-	40,000	-	(1,639,671)	(1,639,671)
Storm water	270,274	240,013	-	280,930	-	250,669	250,669
Total business-type activities	9,239,047	7,768,097	-	320,930	-	(1,150,020)	(1,150,020)
Total primary government	\$ 19,524,663	\$ 10,263,300	\$ 1,927,872	\$ 723,960	(5,459,511)	(1,150,020)	(6,609,531)
General revenues:							
Property and other taxes levied for:							
General purposes					632,189	-	632,189
Police					314,235	-	314,235
Fire					144,048	-	144,048
Recreation					299,987	-	299,987
Income taxes levied for:							
General purposes					5,377,056	-	5,377,056
Capital outlay					1,344,341	-	1,344,341
Sanitation					-	1,344,609	1,344,609
Payments in lieu of taxes					10,931	-	10,931
Grants and entitlements not restricted to specific programs					637,363	-	637,363
Investment earnings					516,024	-	516,024
Shared revenues					147,995	-	147,995
Other					282,279	75,382	357,661
Total general revenues before transfers					9,706,448	1,419,991	11,126,439
Transfers					102,442	(102,442)	-
Total general revenues and transfers					9,808,890	1,317,549	11,126,439
Change in net position					4,349,379	167,529	4,516,908
Net position at beginning of year					14,272,617	29,643,058	43,915,675
Net position at end of year					\$ 18,621,996	\$ 29,810,587	\$ 48,432,583

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>General</u>	<u>General Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,459,275	\$ 382,148	\$ 3,771,106	\$ 6,612,529
Cash in segregated accounts	2,954	-	-	2,954
Receivables:				
Income taxes	1,410,610	352,705	-	1,763,315
Property and other taxes	630,307	-	744,094	1,374,401
Accounts	49,725	-	30,396	80,121
Payments in lieu of taxes	-	-	115,698	115,698
Accrued interest	40,246	-	-	40,246
Special assessments	15,109	26,008	-	41,117
Notes receivable	-	-	1,153,759	1,153,759
Due from other governments	247,148	-	1,150,636	1,397,784
Materials and supplies inventory	-	-	61,226	61,226
Total assets	<u>\$ 4,855,374</u>	<u>\$ 760,861</u>	<u>\$ 7,026,915</u>	<u>\$ 12,643,150</u>
Liabilities:				
Accounts payable	\$ 85,220	\$ 8,007	\$ 141,523	\$ 234,750
Contracts payable	-	100,167	-	100,167
Accrued wages and benefits payable	151,327	-	43,709	195,036
Due to other governments	46,277	-	70,282	116,559
Total liabilities	<u>282,824</u>	<u>108,174</u>	<u>255,514</u>	<u>646,512</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year	606,972	-	719,998	1,326,970
Delinquent property tax revenue not available	19,313	-	22,756	42,069
Accrued interest not available	40,246	-	-	40,246
Special assessments revenue not available	15,109	26,008	-	41,117
Payment in lieu of tax revenue not available	-	-	115,698	115,698
Income tax revenue not available	501,631	125,427	-	627,058
Nonexchange transactions not available	177,078	-	797,810	974,888
Total deferred inflows of resources	<u>1,360,349</u>	<u>151,435</u>	<u>1,656,262</u>	<u>3,168,046</u>
Total liabilities and deferred inflows of resources	<u>1,643,173</u>	<u>259,609</u>	<u>1,911,776</u>	<u>3,814,558</u>
Fund balances:				
Nonspendable	-	-	1,214,985	1,214,985
Restricted	-	-	2,983,564	2,983,564
Committed	-	501,252	924,093	1,425,345
Assigned	965,872	-	-	965,872
Unassigned	2,246,329	-	(7,503)	2,238,826
Total fund balances	<u>3,212,201</u>	<u>501,252</u>	<u>5,115,139</u>	<u>8,828,592</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,855,374</u>	<u>\$ 760,861</u>	<u>\$ 7,026,915</u>	<u>\$ 12,643,150</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019

Total governmental fund balances		\$	8,828,592
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			23,652,638
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:			
Income taxes receivable	\$	627,058	
Property and other taxes receivable		42,069	
Due from other governments receivable		974,888	
Special assessments receivable		41,117	
Investment income receivable		40,246	
Total		1,725,378	1,725,378
The net pension and OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in the governmental funds:			
Deferred outflows - pension		3,767,502	
Deferred inflows - pension		(50,809)	
Deferred outflows - OPEB		166,539	
Deferred inflows - OPEB		(312,254)	
Net OPEB liability		(2,977,511)	
Net pension liability		(13,815,284)	
Total		(13,815,284)	(13,221,817)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Compensated absences		(1,001,295)	
OWDA loan payable		(165,510)	
Capital lease payable		(709,366)	
OPWC loans payable		(172,955)	
Police and fire pension		(313,669)	
Total		(2,362,795)	(2,362,795)
Net position of governmental activities		\$	18,621,996

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General	General Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 5,598,540	\$ 1,399,719	\$ -	\$ 6,998,259
Property and other taxes	634,090	-	758,991	1,393,081
Charges for services	73,794	12,745	1,111,785	1,198,324
Licenses and permits	240,769	-	710	241,479
Fines and forfeitures	697,381	-	310,618	1,007,999
Payments in lieu of taxes	-	-	10,931	10,931
Intergovernmental	748,656	-	1,914,881	2,663,537
Special assessments	2,859	46,414	-	49,273
Investment income	528,987	-	5,597	534,584
Shared revenues	112,210	-	35,785	147,995
Other	123,045	1,920	157,314	282,279
Total revenues	<u>8,760,331</u>	<u>1,460,798</u>	<u>4,306,612</u>	<u>14,527,741</u>
Expenditures:				
Current:				
General government	2,070,063	20,742	162,755	2,253,560
Security of persons and property	4,637,532	-	1,060,136	5,697,668
Public health and welfare	108,249	-	-	108,249
Transportation	9,918	-	1,008,488	1,018,406
Community environment and development	28,127	-	343,761	371,888
Leisure time activity	-	-	1,743,704	1,743,704
Utility services	-	-	15,908	15,908
Capital outlay	201,986	1,576,510	418,646	2,197,142
Debt service:				
Principal retirement	10,635	295,924	65,202	371,761
Interest and fiscal charges	2,071	47,271	16,350	65,692
Total expenditures	<u>7,068,581</u>	<u>1,940,447</u>	<u>4,834,950</u>	<u>13,843,978</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,691,750</u>	<u>(479,649)</u>	<u>(528,338)</u>	<u>683,763</u>
Other financing sources (uses):				
Sale of capital assets	-	-	62,742	62,742
Loan proceeds	-	-	95,580	95,580
Capital lease transaction	-	-	19,635	19,635
Transfers in	-	-	1,172,339	1,172,339
Transfers (out)	(1,052,317)	-	(17,580)	(1,069,897)
Total other financing sources (uses)	<u>(1,052,317)</u>	<u>-</u>	<u>1,332,716</u>	<u>280,399</u>
Net change in fund balances	639,433	(479,649)	804,378	964,162
Fund balances at beginning of year	<u>2,572,768</u>	<u>980,901</u>	<u>4,310,761</u>	<u>7,864,430</u>
Fund balances at end of year	<u>\$ 3,212,201</u>	<u>\$ 501,252</u>	<u>\$ 5,115,139</u>	<u>\$ 8,828,592</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Net change in fund balances - total governmental funds	\$	964,162
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 867,385	
Capital Contributions	12,000	
Current year depreciation	<u>(1,354,447)</u>	
Total		(475,062)
 When capital assets are disposed of, the cost of the capital assets is removed from the capital asset account in the statement of activities resulting in a gain (loss) on sale of capital assets in the statement of activities.		
Proceeds from sale of capital assets	\$ (62,742)	
Loss on sale of capital assets	<u>52,809</u>	
Total		(9,933)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(7,188)
 Proceeds of loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.		
		(115,215)
 Repayment of loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		371,761
 Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,015,954
 Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		2,850,810
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(245,910)</u>
Change in net position of governmental activities	\$	<u><u>4,349,379</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 4,962,778	\$ 5,079,700	\$ 5,145,814	\$ 66,114
Property and other taxes	704,122	576,239	636,147	59,908
Charges for services	78,863	66,220	81,772	15,552
Licenses, permits and fees	232,205	219,800	240,769	20,969
Intergovernmental	647,244	691,370	733,830	42,460
Special assessments	2,757	2,500	2,859	359
Investment income	255,598	205,000	265,025	60,025
Shared revenues	110,647	96,000	114,728	18,728
Fines and forfeitures	679,756	635,500	704,827	69,327
Other	44,242	95,000	135,480	40,480
Total revenues	<u>7,718,212</u>	<u>7,667,329</u>	<u>8,061,251</u>	<u>393,922</u>
Expenditures:				
Current:				
General government	2,260,718	2,448,173	2,270,637	177,536
Security of persons and property	5,116,808	5,253,905	4,626,029	627,876
Public health and welfare	103,500	110,625	108,249	2,376
Transportation	15,305	15,628	13,506	2,122
Community environment and development	34,028	34,196	28,912	5,284
Capital outlay	44,175	44,175	44,175	-
Debt service:				
Principal retirement	10,635	10,635	10,635	-
Interest and fiscal charges	2,071	2,071	2,071	-
Total expenditures	<u>7,587,240</u>	<u>7,919,408</u>	<u>7,104,214</u>	<u>815,194</u>
Excess of revenues over (under) expenditures	<u>130,972</u>	<u>(252,079)</u>	<u>957,037</u>	<u>1,209,116</u>
Other financing sources (uses):				
Transfers (out)	(960,560)	(1,052,317)	(1,052,317)	-
Total other financing sources (uses)	<u>(960,560)</u>	<u>(1,052,317)</u>	<u>(1,052,317)</u>	<u>-</u>
Net change in fund balances	(829,588)	(1,304,396)	(95,280)	1,209,116
Fund balance at beginning of year	2,140,833	2,140,833	2,140,833	-
Prior year encumbrances appropriated	162,824	162,824	162,824	-
Fund balance at end of year	<u>\$ 1,474,069</u>	<u>\$ 999,261</u>	<u>\$ 2,208,377</u>	<u>\$ 1,209,116</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Business-type Activities - Enterprise Funds				
	Major			Non-Major	Total
	Water	Sewer	Sanitation	Storm Water	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 2,939,455	\$ 3,383,106	\$ 910,031	\$ 117,898	\$ 7,350,490
Receivables:					
Income taxes	-	-	352,705	-	352,705
Accounts	283,610	319,213	-	19,964	622,787
Special assessments	-	11,688	-	-	11,688
Materials and supplies inventory	66,463	5,953	-	-	72,416
Total current assets	3,289,528	3,719,960	1,262,736	137,862	8,410,086
Noncurrent assets:					
Capital assets:					
Land and construction in progress	174,568	107,376	28,007	-	309,951
Depreciable capital assets, net	12,820,540	25,795,311	1,062,817	843,344	40,522,012
Total capital assets, net	12,995,108	25,902,687	1,090,824	843,344	40,831,963
Total assets	16,284,636	29,622,647	2,353,560	981,206	49,242,049
Deferred outflows of resources:					
OPEB	71,542	68,135	47,694	6,813	194,184
Pension	551,875	525,596	367,917	52,560	1,497,948
Total deferred outflows of resources	623,417	593,731	415,611	59,373	1,692,132
Total assets and deferred outflows of resources	16,908,053	30,216,378	2,769,171	1,040,579	50,934,181
Liabilities:					
Current liabilities:					
Accounts payable	95,072	95,220	8,177	13,234	211,703
Contracts payable	42,187	173,854	-	14,880	230,921
Accrued wages and benefits payable	33,478	28,999	21,647	3,779	87,903
Compensated absences payable - current	49,077	62,270	27,597	5,064	144,008
Due to other governments	15,223	13,569	9,112	1,903	39,807
OWDA loans payable	145,454	869,299	-	-	1,014,753
OPWC loans payable	-	14,450	-	6,134	20,584
Capital lease obligations payable	46,881	46,881	916	11,454	106,132
Total current liabilities	427,372	1,304,542	67,449	56,448	1,855,811
Long-term liabilities:					
Compensated absences payable	141,276	182,954	82,931	14,512	421,673
OWDA loans payable	1,861,811	9,005,391	-	-	10,867,202
OPWC loans payable	-	-	-	168,691	168,691
Capital lease obligations payable	65,070	65,070	569	-	130,709
Net OPEB liability	912,242	868,802	608,162	86,880	2,476,086
Net pension liability	1,889,762	1,799,773	1,259,841	179,977	5,129,353
Total long-term liabilities	4,870,161	11,921,990	1,951,503	450,060	19,193,714
Total liabilities	5,297,533	13,226,532	2,018,952	506,508	21,049,525
Deferred inflows of resources:					
Pension	24,814	23,632	16,542	2,363	67,351
OPEB	2,475	2,357	1,650	236	6,718
Total deferred inflows of resources	27,289	25,989	18,192	2,599	74,069
Total liabilities and deferred inflows of resources	5,324,822	13,252,521	2,037,144	509,107	21,123,594
Net position:					
Net investment in capital assets	10,833,705	15,727,742	1,089,339	642,185	28,292,971
Unrestricted	749,526	1,236,115	(357,312)	(110,713)	1,517,616
Total net position	\$ 11,583,231	\$ 16,963,857	\$ 732,027	\$ 531,472	\$ 29,810,587

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Business-type Activities - Enterprise Funds

	Major			Non-Major Storm Water	Total
	Water	Sewer	Sanitation		
Operating revenues:					
Charges for services	\$ 3,571,715	\$ 3,933,772	\$ 10,909	\$ 240,013	\$ 7,756,409
Other operating revenues	19,678	46,440	7,859	1,405	75,382
Total operating revenues	<u>3,591,393</u>	<u>3,980,212</u>	<u>18,768</u>	<u>241,418</u>	<u>7,831,791</u>
Operating expenses:					
Personal services	1,778,907	1,526,237	1,075,779	162,773	4,543,696
Contract services	648,876	629,791	412,454	53,045	1,744,166
Materials and supplies	565,621	377,769	96,792	-	1,040,182
Depreciation	485,370	878,028	105,376	54,456	1,523,230
Total operating expenses	<u>3,478,774</u>	<u>3,411,825</u>	<u>1,690,401</u>	<u>270,274</u>	<u>8,851,274</u>
Operating income (loss)	<u>112,619</u>	<u>568,387</u>	<u>(1,671,633)</u>	<u>(28,856)</u>	<u>(1,019,483)</u>
Nonoperating revenues (expenses):					
Income taxes	-	-	1,344,609	-	1,344,609
Interest and fiscal charges	(76,296)	(278,764)	(179)	-	(355,239)
Gain (loss) on sale of capital assets	-	(32,534)	-	-	(32,534)
Special assessments	-	11,688	-	-	11,688
Total nonoperating revenues (expenses)	<u>(76,296)</u>	<u>(299,610)</u>	<u>1,344,430</u>	<u>-</u>	<u>968,524</u>
Income before contributions and transfers	36,323	268,777	(327,203)	(28,856)	(50,959)
Capital contributions from other funds	-	-	40,000	280,930	320,930
Transfer out	<u>(46,680)</u>	<u>(16,880)</u>	<u>(37,082)</u>	<u>(1,800)</u>	<u>(102,442)</u>
Change in net position	(10,357)	251,897	(324,285)	250,274	167,529
Net position at beginning of year	<u>11,593,588</u>	<u>16,711,960</u>	<u>1,056,312</u>	<u>281,198</u>	<u>29,643,058</u>
Net position at end of year	<u>\$ 11,583,231</u>	<u>\$ 16,963,857</u>	<u>\$ 732,027</u>	<u>\$ 531,472</u>	<u>\$ 29,810,587</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Business-Type Activities - Enterprise Funds				
	Major			Non-Major	Total
	Water	Sewer	Sanitation	Storm Water	
Cash flows from operating activities:					
Cash received from customers	\$ 3,557,884	\$ 3,906,806	\$ 10,909	\$ 239,232	\$ 7,714,831
Cash received from other operations	19,678	58,068	17,859	1,405	97,010
Cash payments for personal services	(1,402,069)	(1,295,228)	(764,014)	(124,287)	(3,585,598)
Cash payments for contract services	(609,408)	(500,796)	(417,731)	(26,887)	(1,554,822)
Cash payments for materials and supplies	(475,511)	(212,546)	(99,073)	-	(787,130)
Net cash provided by (used in) operating activities	<u>1,090,574</u>	<u>1,956,304</u>	<u>(1,252,050)</u>	<u>89,463</u>	<u>1,884,291</u>
Cash flows from noncapital financing activities:					
Cash received from income taxes	-	-	1,286,790	-	1,286,790
Cash used in transfers out	(46,680)	(16,880)	(37,082)	(1,800)	(102,442)
Net cash provided by (used in) noncapital financing activities	<u>(46,680)</u>	<u>(16,880)</u>	<u>1,249,708</u>	<u>(1,800)</u>	<u>1,184,348</u>
Cash flows from capital and related financing activities:					
Sale of capital assets	-	12,450	-	-	12,450
Acquisition of capital assets	(196,150)	(371,798)	-	(39,956)	(607,904)
Principal retirement on capital lease	(54,486)	(54,486)	(756)	(25,763)	(135,491)
Principal retirement on OWDA loans	(140,676)	(846,116)	-	-	(986,792)
Principal retirement on OPWC loans	-	(14,450)	-	(6,134)	(20,584)
Interest and fiscal charges	(76,296)	(278,764)	(179)	-	(355,239)
Net cash used in capital and related financing activities	<u>(467,608)</u>	<u>(1,553,164)</u>	<u>(935)</u>	<u>(71,853)</u>	<u>(2,093,560)</u>
Net increase (decrease) in cash and cash equivalents	576,286	386,260	(3,277)	15,810	975,079
Cash and cash equivalents at beginning of year	2,363,169	2,996,846	913,308	102,088	6,375,411
Cash and cash equivalents at end of year	<u>\$ 2,939,455</u>	<u>\$ 3,383,106</u>	<u>\$ 910,031</u>	<u>\$ 117,898</u>	<u>\$ 7,350,490</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 112,619	\$ 568,387	\$ (1,671,633)	\$ (28,856)	\$ (1,019,483)
Adjustments:					
Depreciation	485,370	878,028	105,376	54,456	1,523,230
Changes in assets, deferred outflows, liabilities and deferred inflows:					
(Increase) decrease in accounts receivable	(13,831)	(26,966)	10,000	(781)	(31,578)
Decrease (increase) in materials and supplies inventory	17,993	(2,044)	-	-	15,949
(Increase) decrease in special assessments receivable	-	(60)	-	-	(60)
Increase (decrease) in accrued wages and benefits	5,005	1,622	3,970	481	11,078
Increase (decrease) in accounts payable	88,965	90,354	(6,369)	13,234	186,184
Increase (decrease) in contracts payable	42,187	173,854	-	14,880	230,921
Increase (decrease) in compensated absences payable	32,442	58,366	4,380	5,230	100,418
(Increase) decrease in deferred outflows of resources - pension	(297,954)	(271,675)	(210,728)	(28,377)	(808,734)
(Increase) decrease in deferred outflows of resources - OPEB	(14,568)	(11,161)	(12,424)	(1,387)	(39,540)
Increase (decrease) in net pension liability	787,425	697,436	577,442	74,992	2,137,295
Increase (decrease) in net OPEB liability	138,031	94,591	128,888	13,146	374,656
Increase (decrease) in deferred inflows of resources - pension	(233,567)	(234,749)	(143,408)	(22,245)	(633,969)
Increase (decrease) in deferred inflows of resources - OPEB	(55,199)	(55,317)	(34,053)	(5,257)	(149,826)
(Decrease) increase in due to other governments	(4,344)	(4,362)	(3,491)	(53)	(12,250)
Net cash provided by (used in) operating activities	<u>\$ 1,090,574</u>	<u>\$ 1,956,304</u>	<u>\$ (1,252,050)</u>	<u>\$ 89,463</u>	<u>\$ 1,884,291</u>

Non-cash capital transactions:

During 2019, the water, sewer and storm water enterprise funds entered into capital lease purchase obligations of \$25,360, \$25,360 and \$11,454, respectively. Sanitation and Storm Water funds received assets donated from other governmental funds of \$40,000 and \$280,930.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2019

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 45,510
Cash in segregated accounts	<u>31,801</u>
Total assets	<u><u>\$ 77,311</u></u>
Liabilities:	
Due to others	<u>\$ 77,311</u>
Total liabilities	<u><u>\$ 77,311</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 - DESCRIPTION OF THE CITY

The City of Norwalk, Huron County, Ohio (the City) was incorporated in 1887 and chartered in 1972 under the laws of the State of Ohio.

The City operates under a Council-Mayor form of government and provides the following services: police and fire protection, water, sewer sanitation and storm water utility services, park operations, street maintenance and repair, as well as general governmental services. The City also includes the operations of a municipal court with jurisdiction extending beyond the boundaries of the City and is included as part of the primary government.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials are financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's basic financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The City has no component units.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - Fund Accounting

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

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

Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

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

Proprietary funds distinguish operating transactions from nonoperating transactions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating transactions of the City's proprietary funds are charges for sales and services, and include personnel and other expenses related to the operations of the enterprise activity. All other revenues and expenses not meeting these definitions are reported as nonoperating transactions.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Fund Accounting

The City uses funds to maintain its financial records during the year. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts. The City classifies each fund as either governmental, proprietary or fiduciary.

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

General fund - This fund is used to account for and report all financial resources of the City 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.

General capital improvements fund - This fund accounts for capital improvements and is funded by a 0.25% of income taxes collected by the City.

Other governmental funds of the City are used to account for (a) financial resources that are restricted to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted to an expenditure for specified purposes other than debt service or capital projects.

Proprietary Funds - These funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

Sewer fund - This fund accounts for the user charges and expenses of maintaining the sewer lines and facilities of the City.

Water fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Sanitation fund - This fund accounts for the operations of collecting and disposing of refuse and recyclables within the City and is primarily funded by income taxes collected by the City.

Other utility funds include the City's storm water utility fund.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has three agency funds which account for the City's Municipal Court, street openings, and unclaimed funds.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all deferred outflows, all liabilities and all deferred inflows associated with the operation of the City are included on the statement of net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current deferred outflows of resources, current liabilities and current deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus.

All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. 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. Proprietary 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 inflows and outflows 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, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), interest, fines and forfeitures, fees, licenses and permits, and special assessments.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net assets by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

For the City, deferred outflows of resources have been reported for the following items related to the City's net pension liability and net other postemployment benefits liability: (1) the net difference between projected and actual investment earnings on pension plan assets, (2) the City's contributions to the pension systems subsequent to the measurement date and (3) differences between employer's contributions and the employer's proportional share of contributions.

Property taxes for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance year 2020 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2019, are recorded as deferred inflows on the governmental fund financial statements.

The City also reports deferred inflow of resources for the following items related to the City's net pension and other-post employment benefits liability: (1) the City's contributions to the pension systems subsequent to the measurement date and (2) differences between projected and actual investment earnings on pension plan assets. These deferred inflows of resources are only reported on the government-wide statement of net position.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Process

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

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the City determined that receipts collected will be greater than or less than the prior estimate and the Budget Commission finds the revised estimate to be reasonable.

On or before December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The amounts reported within the budgetary statements reflect the original and final estimated resources as certified by the County Budget Commission.

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The City legally adopted appropriation amendments during 2019. The budgetary statement reflects the original and final appropriations as approved by Council.

Encumbrances:

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

G. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements. Interest earnings are allocated as authorized by State statute.

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. Investments are reported as assets.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City invested in STAR Ohio during 2019. STAR Ohio (the State Treasury Asset Reserve of 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 District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2019, 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 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2019 amounted to \$528,987 which included \$448,088 assigned from other funds of the City.

H. Materials and Supplies Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the governmental activities and proprietary funds when used.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City capitalizes all land purchased and then maintains a capitalization threshold of \$5,000 for all other assets.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City’s infrastructure consists of culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. 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. Interest incurred during the construction of capital assets is also capitalized for business-type activities. All reported capital assets are depreciated except for land and intangibles. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 years	20 years
Buildings	6 to 99 years	6 to 99 years
Equipment	5 to 50 years	5 to 50 years
Infrastructure	10 to 50 years	10 to 75 years

J. Compensated Absences

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

In conformity with GASB Statement No. 16, “Accounting for 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 that the City will compensate the employees for the benefits through paid time off or some other means. A vacation liability is recorded for accumulated unused vacation time for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City’s past experience of making termination payments.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.

Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On fund financial statements, receivables and payables to cover deficit cash balances are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net position. The City did not report interfund receivables/payables for 2019.

M. Fund Balance

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

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

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority).

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

N. Estimates

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

O. Net Position

Net position represents the difference between assets plus deferred outflows less liabilities plus deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2019 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2019.

R. Fair Value

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.

S. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction and from contributions from governmental funds.

T. Unamortized Bond Discounts/Accounting Gain or Loss

Bond discounts are amortized over the term of the bonds using the straight-line method. Bond discounts are presented as a reduction to the face amount of the bonds.

On the governmental fund financial statements bond discounts and net gains or losses from refunding are recognized in the current period.

U. Pensions/Other Postemployment Benefits (OPEB)

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3 - ACCOUNTABILITY

A. Change in Accounting Principles

For 2019, the City has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations", GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements", GASB Statement No. 90, "Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61" and GASB Statement No. 95 "Postponement of Effective Dates of Certain Authoritative Guidance".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements.

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The implementation of GASB Statement No. 90 did not have an effect on the financial statements.

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. This statement had no effect on the financial statements.

B. Deficit Fund Balances

Fund balances at December 31, 2019 included a deficit of \$4,879 and \$2,624 in the Intensive Supervision Grant and EPA Brownfield Grant Other Governmental funds. The General fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - 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 that the City has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio; and with certain limitations including a requirement for maturity within a ten year form the date of settlement, bonds and other obligations of a political subdivision of the State of Ohio, if training requirements have been met;

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 items 1 or 2, above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty and two hundred seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one period.

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 Finance Director 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.

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.

Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year end, the City had \$945 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and investments".

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash in Segregated Accounts

At year-end, \$34,755 was on deposit for the City's furtherance of justice account and municipal court account and was held outside of the City's treasury.

This amount is included in the total amount of deposits reported below and is reported on the financial statements as "cash in segregated accounts".

C. Deposits with Financial Institutions

At December 31, 2019, the carrying amount of all City deposits was \$1,871,428. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2019, \$1,663,326 of the City's bank balance of \$2,124,935 was exposed to custodial credit risk as discussed below, while \$461,609 was covered by the FDIC.

Custodial credit risk 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. The City has no deposit policy for custodial credit risk beyond the requirements of State statute.

Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the City's and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the City's financial institution was approved for a collateral rate of 102 percent through the OPCS. Although all 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.

D. Investments

As of December 31, 2019, the City had the following investments and maturities:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLMC	\$ 1,540,876	\$ -	\$ 750,030	\$ -	\$ 790,846
FFCB	1,148,246	-	-	400,000	748,246
FNMA	375,428	-	-	-	375,428
U.S. Treasury Note	493,300	-	-	-	493,300
Negotiable CD's	4,613,947	-	898,461	248,759	3,466,727
Commercial paper	2,063,435	743,596	1,319,839	-	-
STAR Ohio	1,493,489	1,493,489	-	-	-
U.S. Government Money Market	442,190	442,190	-	-	-
Total	<u>\$ 12,170,911</u>	<u>\$ 2,679,275</u>	<u>\$ 2,968,330</u>	<u>\$ 648,759</u>	<u>\$ 5,874,547</u>

The weighted average maturity of investments is 1.97 years. The City's investments in federal securities, U.S. Treasury Note, commercial paper, and negotiable CD's are valued using quoted market prices (Level 2 inputs). Star Ohio and U.S. Government Money Market are valued at cost.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The federal agency securities carry a rating of AA+ and Aaa by Standard & Poor's and Moody, respectively.

The negotiable CDs are not rated. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2019:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,540,876	12.66
FNMA	375,428	3.08
FFCB	1,148,246	9.43
U.S. Treasury Note	493,300	4.05
Commercial paper	2,063,435	16.95
Negotiable CD's	4,613,947	37.91
STAR Ohio	1,493,489	12.28
U.S. Government Mondy Market	<u>442,190</u>	<u>3.64</u>
 Total	 <u>\$ 12,170,911</u>	 <u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2019:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,871,428
Investments	12,170,911
Cash on hand	945
Total	<u>\$ 14,043,284</u>
 <u>Cash and investments per statement of position</u>	
Governmental activities	\$ 6,615,483
Business-type activities	7,350,490
Agency fund	77,311
Total	<u>\$ 14,043,284</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended December 31, 2019, consisted of the following, as reported on the fund financial statements:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 1,052,317
Water fund	Other governmental funds	46,680
Sewer fund	Other governmental funds	16,880
Sanitation fund	Other governmental funds	37,082
Storm water fund	Other governmental funds	1,800
Other Governmental funds	Other governmental funds	17,580

In accordance with budgetary authorizations, transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General fund to finance various programs. Transfers from the general fund to other governmental funds are were used to supplement operations.

Transfers from the other governmental funds, water fund and sewer fund to the other governmental funds were for the purpose of funding the City's payroll stabilization fund. All transfers made in fiscal year 2019 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2019 public utility property taxes became a lien December 31, 2018, are levied after October 1, 2019, and are collected in 2020 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Norwalk.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6 - PROPERTY TAXES - (Continued)

The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2019 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2019 operations and the collection of delinquent taxes has been offset by a deferred inflow since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values of real and public utility property upon which 2019 property tax receipts were based are as follows:

Real property tax	\$ 259,163,690
Public utility tangible personal property	<u>10,432,410</u>
Total assessed value	<u><u>\$ 269,596,100</u></u>

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.5% applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. The City gives a 100% credit to the tax paid to another municipality to the maximum of the total amount assessed. It also applies to the net income of business organizations located within the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2019 and is allocated to the general fund, sanitation fund and general capital improvements fund. Income tax revenue for 2019 was \$8,066,006 as reported in the statement of activities.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2019, consisted of taxes, payments in lieu of taxes, accounts (billings for user charged services), accrued interest, notes, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue.

All intergovernmental receivables have been classified as "due from other governments" on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2019. A summary of the principal items of receivables reported on the statement of net position follows:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 8 - RECEIVABLES - (Continued)

Income taxes	\$ 1,763,315
Property and other taxes	1,374,401
Payments in lieu of taxes	115,698
Accounts	80,121
Special assessments	41,117
Accrued interest	40,246
Notes	1,153,759
Due from other governments	1,397,784
<u>Business-type activities:</u>	
Accounts	622,787
Income taxes	352,705
Special assessments	11,688

Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year are the special assessments and notes receivable that are collected over the life of the assessment/note.

NOTE 9 - CAPITAL ASSETS

A. Governmental activities capital asset activity at December 31, 2019 as follows:

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**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - CAPITAL ASSETS - (Continued)

	Balance <u>12/31/18</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/19</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,125,695	\$ -	\$ (68,261)	\$ 3,057,434
Construction in progress	<u>20,384</u>	<u>115,943</u>	<u>(20,384)</u>	<u>115,943</u>
Total capital assets, not depreciated	<u>3,146,079</u>	<u>115,943</u>	<u>(88,645)</u>	<u>3,173,377</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,277,210	-	-	2,277,210
Buildings and improvements	11,708,367	-	-	11,708,367
Equipment	7,762,177	250,674	(74,532)	7,938,319
Infrastructure	<u>23,534,897</u>	<u>533,152</u>	<u>(95,141)</u>	<u>23,972,908</u>
Total capital assets, depreciated	<u>45,282,651</u>	<u>783,826</u>	<u>(169,673)</u>	<u>45,896,804</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,348,885)	(74,328)	-	(1,423,213)
Buildings and improvements	(2,126,271)	(135,119)	-	(2,261,390)
Equipment	(5,496,467)	(303,883)	74,532	(5,725,818)
Infrastructure	<u>(15,251,213)</u>	<u>(841,117)</u>	<u>85,208</u>	<u>(16,007,122)</u>
Total accumulated depreciation	<u>(24,222,836)</u>	<u>(1,354,447)</u>	<u>159,740</u>	<u>(25,417,543)</u>
Total capital assets, being depreciated	<u>21,059,815</u>	<u>(570,621)</u>	<u>(9,933)</u>	<u>20,479,261</u>
Total capital assets, net	<u>\$ 24,205,894</u>	<u>\$ (454,678)</u>	<u>\$ (98,578)</u>	<u>\$ 23,652,638</u>

Depreciation expense was charged to governmental activities as follows:

<u>Governmental activities:</u>	
General government	\$ 25,076
Security persons and property	299,062
Leisure time activity	122,074
Transportation	<u>908,235</u>
Total depreciation expense - governmental activities	<u>\$ 1,354,447</u>

NOTE 9 - CAPITAL ASSETS

B. Business-type activities capital asset activity at December 31, 2019 as follows:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 - CAPITAL ASSETS - (Continued)

	Balance <u>12/31/18</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/19</u>
Business-type activities:				
<i>Capital assets, not depreciated:</i>				
Land	\$ 45,261	\$ -	\$ -	\$ 45,261
Construction in progress	-	<u>264,690</u>	-	<u>264,690</u>
Total capital assets, depreciated	<u>45,261</u>	<u>264,690</u>	-	<u>309,951</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,172,873	-	-	1,172,873
Buildings and improvements	13,878,514	-	-	13,878,514
Equipment	12,011,592	219,929	(35,037)	12,196,484
Infrastructure	<u>44,925,941</u>	<u>505,627</u>	-	<u>45,431,568</u>
Total capital assets, depreciated	<u>71,988,920</u>	<u>725,556</u>	<u>(35,037)</u>	<u>72,679,439</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(985,491)	(21,299)	-	(1,006,790)
Buildings and improvements	(4,361,028)	(201,258)	-	(4,562,286)
Equipment	(8,861,214)	(357,988)	2,503	(9,216,699)
Infrastructure	<u>(16,428,967)</u>	<u>(942,685)</u>	-	<u>(17,371,652)</u>
Total accumulated depreciation	<u>(30,636,700)</u>	<u>(1,523,230)</u>	<u>2,503</u>	<u>(32,157,427)</u>
Total capital assets, depreciated	<u>41,352,220</u>	<u>(797,674)</u>	<u>(32,534)</u>	<u>40,522,012</u>
Total capital assets, net	<u>\$ 41,397,481</u>	<u>\$ (532,984)</u>	<u>\$ (32,534)</u>	<u>\$ 40,831,963</u>

NOTE 10 – CAPITAL LEASES

In prior and current years, the City entered into lease purchase agreements for vehicles and equipment.

General capital assets acquired by agreement have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a corresponding liability was recorded in the government-wide and business-type activity financial statements. Principal payments in 2019 totaled \$387,401. Principal and interest payments are made from the state highway fund, street fund, parks and recreation fund, aquatics fund, (nonmajor other governmental funds), the general fund, capital improvement fund, water fund, sewer fund, sanitation fund and the storm water fund.

New and existing equipment is being used by both governmental activities and business-type activities.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2019:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 10 – CAPITAL LEASES - (Continued)

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Storm Water Fund</u>
2020	\$ 258,335	\$ 51,257	\$ 51,257	\$ 1,011	\$ 11,757
2021	207,422	24,164	24,164	584	-
2022	196,096	23,102	23,102	-	-
2023	<u>96,191</u>	<u>23,256</u>	<u>23,256</u>	<u>-</u>	<u>-</u>
Total minimum lease payments	758,044	121,779	121,779	1,595	11,757
Less: interest	<u>(48,678)</u>	<u>(9,828)</u>	<u>(9,828)</u>	<u>(110)</u>	<u>(303)</u>
Present value of future lease payments	<u>\$ 709,366</u>	<u>\$ 111,951</u>	<u>\$ 111,951</u>	<u>\$ 1,485</u>	<u>\$ 11,454</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. Governmental Activities

During 2019, the following changes occurred in the governmental activities long-term obligations:

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**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Governmental activities:	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at 12/31/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/19</u>	<u>Amounts Due in One Year</u>
<u>OPWC loans</u>							
East/west parkway construction	0.00%	07/01/22	\$ 21,875	\$ -	\$ (6,250)	\$ 15,625	\$ 6,250
Woodlawn avenue paving project phase III	0.00%	01/01/21	2,920	-	(1,460)	1,460	1,460
Woodlawn avenue paving project phase IV	0.00%	01/01/22	20,360	-	(13,700)	6,660	6,660
Bridge rehabilitation	0.00%	01/01/27	9,506	-	(1,188)	8,318	1,188
East main phase III	0.00%	07/01/23	4,500	-	(1,000)	3,500	1,000
Old state road widening phase I	0.00%	01/01/27	9,250	-	(500)	8,750	500
Old state road widening phase II	0.00%	01/01/28	28,500	-	(3,000)	25,500	3,000
Old state road widening phase III	0.00%	01/01/40	-	95,580	-	95,580	4,780
Concrete street repair project	0.00%	07/01/33	8,122	-	(560)	7,562	560
Total OPWC loans			<u>105,033</u>	<u>95,580</u>	<u>(27,658)</u>	<u>172,955</u>	<u>25,398</u>
<u>Other long-term obligations</u>							
Police and fire pension	4.25%	11/1/2035	327,780	-	(14,111)	313,669	14,717
OWDA milan/chatham sewer project	3.90%	1/1/2022	243,592	-	(78,082)	165,510	81,157
Net pension liability			9,648,009	4,167,275	-	13,815,284	-
Net OPEB liability			8,408,232	-	(5,430,721)	2,977,511	-
Capital lease agreements			941,641	19,635	(251,910)	709,366	235,361
Compensated absences			755,385	541,578	(295,668)	1,001,295	254,024
Total other long-term obligations			<u>20,324,639</u>	<u>4,728,488</u>	<u>(6,070,492)</u>	<u>18,982,635</u>	<u>585,259</u>
Total governmental activities			<u>\$ 20,429,672</u>	<u>\$ 4,824,068</u>	<u>\$ (6,098,150)</u>	<u>\$ 19,155,590</u>	<u>\$ 610,657</u>

Compensated Absences:

Compensated absences are reported in the statement of net position and will be paid from the fund from which the employees' salaries are paid which will primarily be the general fund and other governmental funds.

OPWC Loans:

Ohio Public Works Commission Loans (OPWC) have been issued for various infrastructure improvements throughout the City and will be repaid from income taxes, special assessments and gasoline taxes as it relates to the fund that received the original loan proceeds.

The following is a summary of the City's future annual debt service principal requirements for the OPWC loans:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Year Ended December 31,</u>	<u>Principal</u>
2020	\$ 25,398
2021	21,338
2022	17,278
2023	11,028
2024	10,029
2025-2029	44,171
2030-2034	28,642
2035-2039	<u>15,071</u>
Total	<u>\$ 172,955</u>

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2019, the City's total debt margin was \$28,307,591 and the unvoted debt margin was \$14,827,786.

OWDA Loans:

Ohio Water Development Authority Loans (OWDA) have been issued for Milan/Chatham improvements will be repaid from income taxes it relates to the fund that received the original loan proceeds at an interest rate of 3.90%. The following is a summary of the City's future annual debt service principal and interest requirements for the OWDA loans:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 81,157	\$ 5,671	\$ 86,828
2021	<u>84,353</u>	<u>2,475</u>	<u>86,828</u>
Total	<u>\$ 165,510</u>	<u>\$ 8,146</u>	<u>\$ 173,656</u>

Police and Fire Pension Service Cost:

The liability for police and fire pension service cost relates to the City's liability to previous employees prior to the establishment of the Ohio Police and Fire Pension Fund. The City is required to make payments of approximately \$27,900, including interest, annually through 2035. The liability is collateralized by the full faith and credit of the City. The following is a summary of the City's future and annual debt service principal and interest requirements for Police and Fire Pension Service Cost:

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 14,717	\$ 13,176	\$ 27,893
2021	15,350	12,545	27,895
2022	15,989	24,885	40,874
2023	16,696	11,197	27,893
2024	17,414	10,480	27,894
2025-2029	98,971	40,517	139,488
2030-2034	122,106	17,360	139,466
2035-2039	<u>12,426</u>	<u>264</u>	<u>12,690</u>
Total	<u>\$ 313,669</u>	<u>\$ 130,424</u>	<u>\$ 444,093</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Activities

During 2019, the following changes occurred in the business-type long-term obligations:

	Interest Rate	Maturity Date	Balance at 12/31/18	Additions	Reductions	Balance at 12/31/19	Due in One Year
<u>OPWC Loan</u>							
Pleasant street pump	0.00%	12/01/2024	\$ 28,900	\$ -	\$ (14,450)	\$ 14,450	\$ 14,450
Milan avenue improvements	0.00%	01/01/2027	180,959	-	(6,134)	174,825	6,134
Total OPWC loan			209,859	-	(20,584)	189,275	20,584
<u>OWDA loans</u>							
Ward/parsons sewer construction	3.75%	07/01/19	21,662	-	(21,662)	-	-
Milan/chatham sewer project	3.90%	01/01/22	365,389	-	(117,124)	248,265	121,736
Wastewater treatment plant improve.	3.25%	01/01/27	3,981,089	-	(418,748)	3,562,341	431,150
Corwin street sewer improve.	3.67%	07/01/27	317,143	-	(32,427)	284,716	33,628
Water treatment improvement	2.94%	07/01/27	332,509	-	(37,028)	295,481	38,241
West main waterline replacement	2.82%	07/01/32	653,958	-	(40,424)	613,534	41,572
Norwood avenue waterline	4.78%	07/01/28	194,953	-	(16,650)	178,303	17,456
Old state route waterline	3.79%	07/01/34	547,214	-	(26,517)	520,697	27,531
Pleasant street combined overflow	2.24%	01/01/37	6,035,523	-	(256,155)	5,779,368	282,785
Milan avenue waterline replacement	2.95%	07/01/35	419,307	-	(20,057)	399,250	20,654
Total OWDA loans			12,868,747	-	(986,792)	11,881,955	1,014,753
<u>Other long-term obligations:</u>							
Capital lease obligation			310,158	62,174	(135,491)	236,841	106,132
Net pension liability			2,992,058	2,137,295	-	5,129,353	-
Net OPEB liability			2,101,430	374,656	-	2,476,086	-
Compensated absences			465,263	281,634	(181,216)	565,681	144,008
Total business-type activities			\$ 18,947,515	\$ 2,855,759	\$ (1,324,083)	\$ 20,479,191	\$ 1,285,477

Compensated Absences:

Compensated absences will be paid from the water, sewer, sanitation and stormwater enterprise funds.

OPWC Loans:

An OPWC loans was issued for improvements to the City's Pleasant street pump station and Milan avenue improvements. Principal payments are due in semi-annual installments at 0% interest rate.

The following is a summary of the City's future annual debt service principal requirements for the OPWC loans:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year Ended <u>December 31,</u>	OPWC Loans Payable <u>Principal</u>
2020	\$ 20,584
2021	6,134
2022	6,134
2023	6,134
2024	6,134
2025-2029	30,670
2030-2034	30,670
2035-2039	30,670
2040-2044	30,670
2045-2049	<u>21,475</u>
Total	<u>\$ 189,275</u>

OWDA Loans:

The City has entered into debt financing arrangements through the Ohio Water Department Authority (OWDA) to fund various water and sewer related construction projects. The amounts due to the OWDA are payable solely from sewer and water revenues. The loan agreements function similar to a line-of-credit agreement. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through 2037. The annual requirements to retire OWDA principal and interest as follows:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year Ended December 31,	OWDA Loans Payable		
	Principal	Interest	Total
2020	\$ 1,014,753	\$ 311,773	\$ 1,326,526
2021	1,044,874	281,884	1,326,758
2022	944,416	252,344	1,196,760
2023	971,252	229,685	1,200,937
2024	998,873	197,552	1,196,425
2025-2029	3,764,774	599,793	4,364,567
2030-2034	2,328,267	244,462	2,572,729
2035-2037	814,746	22,726	837,472
Total	<u>\$ 11,881,955</u>	<u>\$ 2,140,219</u>	<u>\$ 14,022,174</u>

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees).

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees 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.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12- DEFINED BENEFIT PENSION PLANS - (Continued)

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

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 2.25 percent. Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2019 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2019 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits	<u>0.0</u>
Total Employer	<u><u>14.0 %</u></u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$622,792 for 2019. Of this amount, \$24,555 is reported as due to other governments.

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

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

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.50% for each of the first 20 years of service credit, 2.00% for each of the next five years of service credit and 1.50% for each year of service credit in excess of 25 years. The maximum pension of 72.00% of the allowable average annual salary is paid after 33 years of service credit.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	Police	Fire
2019 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.0 %
Employee	12.25 %	12.25 %
 2019 Actual Contribution Rates		
Employer:		
Pension	19.0 %	23.5 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.5 %	24.0 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was \$728,104 for 2019. Of this amount, \$71,283 is reported as due to other governments.

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

The net pension liability for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.0334600%	0.120422%	
Proportion of the net pension liability current measurement date	<u>0.0328570%</u>	<u>0.121845%</u>	
Change in proportionate share	<u>-0.000603%</u>	<u>0.001423%</u>	
Proportionate share of the net pension liability	\$ 8,998,865	\$ 9,945,772	\$ 18,944,637
Pension expense	1,841,377	952,888	2,794,265

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS - Traditional</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 415	\$ 316,897	\$ 317,312
Net difference between projected and actual earnings on pension plan investments	1,221,398	1,592,471	2,813,869
Changes of assumptions	783,373	-	783,373
City contributions subsequent to the measurement date	622,792	728,104	1,350,896
Total deferred outflows of resources	<u>\$ 2,627,978</u>	<u>\$ 2,637,472</u>	<u>\$ 5,265,450</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 118,160	\$ -	\$ 118,160
Net difference between projected and actual earnings on pension plan investments	-	-	-
Total deferred inflows of resources	<u>\$ 118,160</u>	<u>\$ -</u>	<u>\$ 118,160</u>

\$1,350,896 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, 2020.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2020	\$ 811,708	\$ 599,596	\$ 1,411,304
2021	431,026	330,328	761,354
2022	463,598	481,212	944,810
2023	180,694	498,232	678,926
Total	\$ 1,887,026	\$ 1,909,368	\$ 3,796,394

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, 2018, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

Wage inflation	3.25%
Future salary increases, including inflation COLA or ad hoc COLA	3.25% to 10.75% including wage inflation Pre 1/7/2013 retirees: 3.00%, simple Post 1/7/2013 retirees: 3.00%, simple through 2018, then 2.15% simple
Investment rate of return:	
Current measurement date	7.20%
Prior measurement date	7.50%
Actuarial cost method	Individual entry age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

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.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 2.94% for 2018.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.79 %
Domestic equities	19.00	6.21
Real estate	10.00	4.90
Private equity	10.00	10.81
International equities	20.00	7.83
Other investments	18.00	5.50
Total	<u>100.00 %</u>	<u>5.95 %</u>

Discount Rate - The discount rate used to measure the total pension liability/asset was 7.20%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The discount rate used to measure total pension liability prior to December 31, 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.20%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.20%) or one-percentage-point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
City's proportionate share of the net pension liability	\$13,293,942	\$8,998,865	\$5,429,619

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2018 is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future:

Valuation Date	1/1/18 with actuarial liabilities rolled forward to 12/31/18
Actuarial Cost Method	Entry age normal
Investment Rate of Return	8.00%
Projected Salary Increases	3.75%-10.50%
Payroll Increases	3.25%
Inflation Assumptions	2.75%, plus productivity increase rate of 0.50%
Cost of Living Adjustments	3.00% simple; 2.20% simple for increases based on the lesser of the increase in CPI and 3.00%

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

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 and Guidelines. A forecasted rate of inflation serves as the baseline for the return expected. 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 OP&F's target asset allocation as of December 31, 2018 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	- %	1.00 %	0.80 %
Domestic Equity	16.00	5.30	5.50
Non-US Equity	16.00	6.10	5.90
Private Markets	8.00	8.40	8.40
Core Fixed Income *	23.00	2.20	2.60
High Yield Fixed Income	7.00	4.20	4.80
Private Credit	5.00	8.30	7.50
U.S. Inflation			
Linked Bonds *	17.00	1.30	2.30
Master Limited Partnerships	8.00	6.70	6.40
Real Assets	8.00	7.00	7.00
Private Real Estate	12.00	5.70	6.10
Total	120.00 %		

Note: assumptions are geometric.

* levered 2x

** numbers include inflation

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Discount Rate - The total pension liability was calculated using the discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00%. 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 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 13,073,031	\$ 9,945,772	\$ 7,332,494

NOTE 13 – DEFINED BENEFIT OPEB PLANS

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.00% of earnable salary and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care was 0.00% for the Traditional and Combined plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.00%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2019.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F 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 OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

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

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

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.50% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City’s contractually required contribution to OP&F was \$20,049 for 2019. Of this amount, \$1,695 is reported as due to other governments.

The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.033319%	0.1218450%	
Prior Measurement Date	<u>0.033950%</u>	<u>0.1204220%</u>	
Change in Proportionate Share	<u><u>-0.0006310%</u></u>	<u><u>0.0014230%</u></u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$4,344,011	\$1,109,586	\$5,453,597
OPEB Expense	325,072	(5,544,624)	(5,219,552)

Actuarial Assumptions - OPERS

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.96 percent
Prior Measurement date	3.85 percent
Investment Rate of Return	
Current measurement date	6.00 percent
Prior Measurement date	6.50 percent
Municipal Bond Rate	
Current measurement date	3.71 percent
Prior Measurement date	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 5.60 percent for 2018.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return.

<u>Asset Class</u>	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trust	6.00	5.98
International Equities	22.00	7.83
Other investments	17.00	5.57
Total	<u>100.00 %</u>	<u>5.16 %</u>

Discount Rate A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 3.71 percent.

**CITY OF NORWALK
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
City's proportionate share of the net OPEB liability	\$5,557,609	\$4,344,011	\$3,378,880

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$4,175,537	\$4,344,011	\$4,538,048

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS - Traditional	OP&F	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 1,471	\$ -	\$ 1,471
Net difference between projected and actual earnings on pension plan investments	199,147	-	199,147
Changes of assumptions	140,056	-	140,056
City contributions subsequent to the measurement date	-	20,049	20,049
Total deferred outflows of resources	<u>\$ 340,674</u>	<u>\$ 20,049</u>	<u>\$ 360,723</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 11,787	\$ -	\$ 11,787
Changes of assumptions	-	307,185	307,185
Total deferred inflows of resources	<u>\$ 11,787</u>	<u>\$ 307,185</u>	<u>\$ 318,972</u>

\$20,049 is 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2020	\$ 155,071	\$ (49,255)	\$ 105,816
2021	40,059	(407,889)	(367,830)
2022	34,029	44,139	78,168
2023	99,728	105,820	205,548
Total	<u>\$ 328,887</u>	<u>\$ (307,185)</u>	<u>\$ 21,702</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, 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.

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	4.66 percent
Prior measurement date	3.24 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011. The long-term expected rate of return on OPEB 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 expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2018, are summarized below:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	0.00 %	1.00 %	0.80 %
Domestic Equity	16.00	5.30	5.50
Non-US Equity	16.00	6.10	5.90
Private Markets	8.00	8.40	8.40
Core Fixed Income *	23.00	2.20	2.60
High Yield	7.00	4.20	4.80
Private Credit	5.00	8.30	7.50
U.S. Inflation Linked Bonds	17.00	1.30	2.30
Master Limited Partnerships	8.00	6.70	6.40
Real Assets	8.00	7.00	7.00
Private Real Estate	12.00	5.70	6.10
Total	<u>120.00 %</u>		

Note: assumptions are geometric.

* levered 2x

** numbers include inflation

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

Discount Rate - The total OPEB liability was calculated using the discount rate of 4.66%. A discount rate of 3.24% was used to measure the total OPEB liability at December 31, 2017. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from 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 8.00%. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 4.13% at December 31, 2018 and 3.16% at December 31, 2017, was blended with the long-term rate of 8.00%, which resulted in a blended discount rate of 4.66%.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 13 – DEFINED BENEFIT OPEB PLANS- (Continued)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66 percent), or one percentage point higher (5.66 percent) than the current rate.

	1% Decrease (3.36%)	Current Discount Rate (4.66%)	1% Increase (5.66%)
City's proportionate share of the net OPEB liability	\$1,351,778	\$1,109,586	\$906,286

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Due to the change from a self-funded plan to the stipend plan, disclosure of the healthcare cost trend rate for OP&F is no longer available.

Changes Between Measurement Date and Report Date

- Beginning January 1, 2019 OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current healthcare model to the stipend based healthcare model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Although the exact amount of these changes is not known, the overall decrease to the City's net OPEB liability is expected to be significant.

NOTE 14 - RISK MANAGEMENT

A. Liability Insurance

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The City has a comprehensive property and casualty policy with a deductible of \$1,000 per incident. The City's vehicle liability insurance policy limit is \$3,000,000 with a \$1,000 collision deductible. All Council members, administrators and employees are covered under a City liability policy. The limits of this coverage are \$3,000,000 per occurrence and \$5,000,000 in the aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction of coverage from the prior year.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 14 - RISK MANAGEMENT - (Continued)

B. Fidelity Bonds

The Mayor, Finance Director, Municipal Court Judge and Clerk of Courts have a \$100,000 position bond. The Law Director has a \$5,000 position bond. All other City employees are covered by a \$50,000 blanket bond.

C. Workers Compensation

The City participates in the State of Ohio Workers Compensation System, an insurance purchasing pool, at a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented 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:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (95,280)
Net adjustment for revenue accruals	713,494
Net adjustment for expenditure accruals	(102,169)
Net adjustment for other sources/uses	(14,414)
Adjustment for encumbrances	137,802
GAAP basis	\$ 639,433

NOTE 16 – TAX ABATEMENTS

The City provides tax abatements under the following programs which meet the criteria set forth under the requirements of GASB Statement No. 77: the Industrial/Commercial Community Reinvestment Area Program and the Economic Development Job Creation and Retention Program.

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Section 5709, the City has established Community Reinvestment Areas (CRA) for any industrial or commercial property project improvements made to parcel(s) following specific return-on-investment formulas and guidelines approved by City Council. No taxes were abated at December 31, 2019.

Income Tax Abatement Programs

The City has created an Economic Development and Job Creation and Retention Program and Enterprise Zone Agreements for purposes of retaining the City’s competitiveness in local job creation. The City provides an incentive to the company’s gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business.

The abatement is administered as a refund or credit based upon the company’s payroll taxes. Also, the time period of the incentive in years, is determined by how many new jobs are to be created by the respective businesses.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 16 – TAX ABATEMENTS– (Continued)

City Council’s Incentive Criteria for Decision Making

The City has offered tax incentives and CRA abatements to various businesses based upon substantial project investment into the City. The City has created a return on investment formula it considers before entering into any such agreements. This return on investment formula considers the financial impact not only to the City but also other local governments in surrounding counties that may be impacted. Below is the information relevant to the disclosure of these programs for the year ended December 31, 2019:

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) for 2019 (In Actual Dollars)
<i>Income Tax Abatement Programs</i>	
- Manufacturing	\$51,612

Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Norwalk and the Norwalk City School District and Edison Local School District in line with section 5709.82 of the Ohio Revised Code, created various compensation agreements. These agreements state various reimbursement percentages which require municipal income tax sharing when new income tax collections meet stipulations within the compensation agreements. Based on these agreements, the City compensated the Norwalk City School District \$20,770 and the Edison Local School District \$57,840 for the year ended December 31, 2019.

NOTE 17 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2019.

B. Litigation

The City is involved in no material litigation as either plaintiff or defendant.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 18 - OTHER COMMITMENTS

A. Encumbrances

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 84,609
General capital improvement	194,979
Other governmental	<u>393,453</u>
Total governmental funds	<u>673,041</u>
Water	104,230
Sewer	125,932
Sanitation	10,869
Storm Water	<u>4,322</u>
Total proprietary funds	<u>245,353</u>
Total	<u><u>\$ 918,394</u></u>

NOTE 19 - 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 resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 19 - FUND BALANCE-- (Continued)

Fund balance	General	General Capital Improvements	Other Governmental	Total Governmental Funds
Nonspendable:				
Notes	\$ -	\$ -	\$ 1,153,759	\$ 1,153,759
Materials & supplies inventory	-	-	61,226	61,226
Total nonspendable	-	-	1,214,985	1,214,985
Restricted:				
Capital improvements	-	-	812,746	812,746
Economic development	-	-	354,072	354,072
Police and fire protection	-	-	204,709	204,709
Courts	-	-	944,596	944,596
Transportation	-	-	662,541	662,541
Other purposes	-	-	4,900	4,900
Total restricted	-	-	2,983,564	2,983,564
Committed:				
Capital improvements	-	501,252	46,629	547,881
Parks and recreation	-	-	269,184	269,184
Police and fire protection	-	-	69,547	69,547
Payroll stabilization	-	-	538,733	538,733
Total committed	-	501,252	924,093	1,425,345
Community environment	632	-	-	632
Security persons & property	26,835	-	-	26,835
Transportation	3,351	-	-	3,351
Subsequent year appropriations	881,263	-	-	881,263
General government	53,791	-	-	53,791
Total assigned	965,872	-	-	965,872
Unassigned	2,246,329	-	(7,503)	2,238,826
Total fund balances	<u>\$ 3,212,201</u>	<u>\$ 501,252</u>	<u>\$ 5,115,139</u>	<u>\$ 8,828,592</u>

NOTE 20 – SUBSEQUENT EVENTS

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City's investment portfolio and the investments of the pension and other employee benefit plan in which the City participates have incurred a significant decline in fair value, consistent with the general decline in financial markets.

**CITY OF NORWALK
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 20 – SUBSEQUENT EVENTS– (Continued)

However, because the values of individual investments fluctuate with market conditions, and due to the market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST SIX YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.032857%	0.033460%	0.035504%	0.035929%	0.036343%	0.036343%
City's proportionate share of the net pension liability	\$ 8,998,865	\$ 5,249,225	\$ 8,062,356	\$ 6,223,356	\$ 4,348,406	\$ 4,279,741
City's covered-employee payroll	\$ 4,117,629	\$ 4,251,000	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	218.54%	123.48%	181.60%	103.15%	85.22%	82.45%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST SIX YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.12184500%	0.12042200%	0.12652600%	0.12237900%	0.12726800%	0.12726800%
City's proportionate share of the net pension liability	\$ 9,945,772	\$ 7,390,842	\$ 8,014,030	\$ 7,872,700	\$ 6,593,148	\$ 6,198,478
City's covered-employee payroll	\$ 3,237,673	\$ 2,908,126	\$ 2,624,892	\$ 2,487,940	\$ 2,676,671	\$ 2,495,305
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	307.19%	254.14%	305.31%	316.43%	246.32%	248.41%
Plan fiduciary net position as a percentage of the total pension liability	63.07%	70.91%	68.36%	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY PENSION CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST SEVEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>							
Contractually required contribution	\$ 622,792	\$ 576,468	\$ 552,630	\$ 532,751	\$ 723,986	\$ 612,330	\$ 674,768
Contributions in relation to the contractually required contribution	<u>(622,792)</u>	<u>(576,468)</u>	<u>(552,630)</u>	<u>(532,751)</u>	<u>(723,986)</u>	<u>(612,330)</u>	<u>(674,768)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,448,514	\$ 4,117,629	\$ 4,251,000	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY PENSION CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST SEVEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>							
Contractually required contribution	\$ 389,102	\$ 330,825	\$ 310,842	\$ 271,348	\$ 254,802	\$ 282,264	\$ 262,406
Contributions in relation to the contractually required contribution	<u>(389,102)</u>	<u>(330,825)</u>	<u>(310,842)</u>	<u>(271,348)</u>	<u>(254,802)</u>	<u>(282,264)</u>	<u>(262,406)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,047,905	\$ 1,741,184	\$ 1,636,011	\$ 1,428,147	\$ 1,306,677	\$ 1,447,508	\$ 1,345,672
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	19.00%	19.50%	19.50%	19.50%
<i>Fire:</i>							
Contractually required contribution	\$ 339,002	\$ 351,675	\$ 298,947	\$ 281,235	\$ 283,503	\$ 294,999	\$ 275,912
Contributions in relation to the contractually required contribution	<u>(339,002)</u>	<u>(351,675)</u>	<u>(298,947)</u>	<u>(281,235)</u>	<u>(283,503)</u>	<u>(294,999)</u>	<u>(275,912)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,442,562	\$ 1,496,489	\$ 1,272,115	\$ 1,196,745	\$ 1,181,263	\$ 1,229,163	\$ 1,149,633
Contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	23.50%	24.00%	24.00%	24.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST THREE YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability	0.033319%	0.033950%	0.027920%
City's proportionate share of the net OPEB liability	\$ 4,344,011	\$ 3,686,720	\$ 2,820,015
City's covered-employee payroll	\$ 4,117,629	\$ 4,251,000	\$ 4,439,592
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	105.50%	86.73%	63.52%
Plan fiduciary net position as a percentage of the total OPEB liability	46.33%	54.14%	54.14%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST THREE YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability	0.121845%	0.120422%	0.126526%
City's proportionate share of the net OPEB liability	\$ 1,109,586	\$ 6,822,942	\$ 6,005,905
City's covered-employee payroll	\$ 3,237,673	\$ 2,908,126	\$ 2,624,892
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	34.27%	234.62%	228.81%
Plan fiduciary net position as a percentage of the total OPEB liability	46.57%	14.13%	14.13%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY OPEB CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST SEVEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>							
Contractually required contribution	\$ -	\$ -	\$ 39,458	\$ 88,792	\$ 94,914	\$ 95,950	\$ 51,905
Contributions in relation to the contractually required contribution	-	-	(39,458)	(88,792)	(94,914)	(95,950)	(51,905)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,448,514	\$ 4,117,629	\$ 4,251,000	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	1.00%	2.00%	2.00%	2.00%	1.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY OPEB CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST SEVEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>							
Contractually required contribution	\$ 11,575	\$ 9,378	\$ 25,374	\$ 22,205	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(11,575)</u>	<u>(9,378)</u>	<u>(25,374)</u>	<u>(22,205)</u>	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,047,905	\$ 1,741,184	\$ 1,636,011	\$ 1,428,147	\$ 1,306,677	\$ 1,447,508	\$ 1,345,672
Contributions as a percentage of covered-employee payroll	0.57%	0.54%	1.55%	1.55%	0.00%	0.00%	0.00%
<i>Fire:</i>							
Contractually required contribution	\$ 8,474	\$ 6,810	\$ 29,641	\$ 22,916	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(8,474)</u>	<u>(6,810)</u>	<u>(29,641)</u>	<u>(22,916)</u>	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,442,562	\$ 1,496,489	\$ 1,272,115	\$ 1,196,745	\$ 1,181,263	\$ 1,229,163	\$ 1,149,633
Contributions as a percentage of covered-employee payroll	0.59%	0.46%	2.33%	1.91%	0.00%	0.00%	0.00%

Note: Information prior to 2013 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019

PENSION

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018. For 2019 the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) the assumed rate of return and discount rate were reduced from 7.50% down to 7.20%.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following were the most significant changes of assumptions that affected the total pension since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.50% down to 8.00%, (b) changing the future salary increases from a range of 4.25%-11.00% to 3.75%-10.50%, (c) reduction in payroll increases from 3.75% down to 3.25%, (d) reduction in inflation assumptions from 3.25% down to 2.75% and (e) Cost of Living Adjustments (COLA) were reduced from 2.60% and 3.00% simple to 2.20% and 3.00% simple. There were no changes in assumptions for 2019.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%. For 2019, the following were the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.85% up to 3.96%, (b) The investment rate of return was decreased from 6.50% percent down to 6.00%, (c) the municipal bond rate was increased from 3.31% up to 3.71% and (d) the health care cost trend rate was increased from 7.50%, initial/3.25%, ultimate in 2028 up to 10.00%, initial/3.25%, ultimate in 2029.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) DROP interest rate was reduced from 4.50% to 4.00%, (b) CPI-based COLA was reduced from 2.60% to 2.20%, (c) investment rate of return was reduced from 8.25% to 8.00%, (d) salary increases were reduced from 3.75% to 3.25% and (e) payroll growth was reduced from 3.75% to 3.25%. For 2019, the following were the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.24% up to 4.66%.

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

City of Norwalk
Huron County
38 Whittlesey Avenue
P.O. Box 30
Norwalk, Ohio 44857

To the City Council and Management:

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 Norwalk, Huron County, (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2020, wherein we noted the City considered the financial impact of COVID-19 as disclosed in Note 20.

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 report is not suitable for any other purpose.



June 22, 2020
Newark, Ohio

OHIO AUDITOR OF STATE
KEITH FABER



CITY OF NORWALK

HURON 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
JULY 21, 2020**