

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Members of City Council
City of Olmsted Falls
26100 Bagley Road
Olmsted Falls, Ohio 44138-1897

We have reviewed the *Independent Auditor's Report* of the City of Olmsted Falls, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2015 through December 31, 2015. 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 Olmsted Falls is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

October 28, 2016

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**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Olmsted Falls
Olmsted Falls, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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, each major fund, and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, as of December 31, 2015, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and restated its net position at December 31, 2014 for governmental activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2016, on our consideration of the City of Olmsted Falls, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 of Olmsted Falls, Ohio's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.
Certified Public Accountants

August 17, 2016

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City of Olmsted Falls, Ohio

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

The management's discussion and analysis of the City of Olmsted Falls (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the 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 2015 are as follows:

- The total net position of the City decreased \$428,235 or 1.56% compared to 2014.
- General revenues account for \$5,223,082 or 68.69% of total governmental activities revenue. Program specific revenues accounted for \$2,381,257 or 31.31% of total governmental activities revenue.
- The City had \$8,032,574 in expenses related to governmental activities; these expenses were partially offset by program specific charges for services, grants or contributions.
- The City's major governmental funds are the general fund, sewer debt project 4 fund, and capital improvement fund. The general fund had revenues and other financing sources of \$4,701,536 in 2015. The general fund had expenditures of \$4,801,338. The net decrease in fund balance for the general fund was \$99,802 or 3.53%.
- The sewer debt project 4 fund had revenues and other financing sources of \$69,692 in 2015. The expenditures of the sewer debt project 4 fund, totaled \$30,696 in 2015. The net increase in fund balance for the sewer debt project 4 fund was \$38,996 or 30.90%.
- The capital improvement fund had revenues of \$295,291 in 2015. The expenditures of the capital improvement fund, totaled \$584,815 in 2015. The net decrease in fund balance for the capital improvement fund was \$289,524 or 32.32%.
- In the general fund, the actual revenues and other financing sources came in \$42,980 more than they were in the final budget and actual expenditures and other financing uses were \$159,143 less than the amount in the final budget.

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.

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.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2015
(Unaudited)

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 2015?" The statement of net position and statement of activities answer this question. These statements include all non-fiduciary 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 that 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 revenues growth, facility conditions, required community programs and other factors.

In the statement of net position and statement of activities, the governmental activities include the City's programs and services, including police, fire and rescue, street maintenance, 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.

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 two categories: governmental 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 focus on the City's most significant funds. The analysis of the City's major governmental funds, which includes the general fund, begins on page 14.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

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 fiscal 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 change 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, sewer debt project 4 fund, and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18-24 of this report.

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 statements 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. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 26 of this report.

Notes to the Basic financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-71 of this report.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2015 compared to 2014.

Table 1 - Net Position

	Governmental Activities	
	2015	2014*
<u>Assets</u>		
Current and Other Assets	\$ 11,649,655	\$ 12,830,921
Capital Assets	26,386,016	25,652,138
Total Assets	38,035,671	38,483,059
<u>Deferred Outflows of Resources</u>		
Pension	632,652	438,312
Total Deferred Outflows of Resources	632,652	438,312
<u>Liabilities</u>		
Long-term Liabilities	7,694,637	7,845,028
Other Liabilities	2,277,717	1,983,267
Total Liabilities	9,972,354	9,828,295
<u>Deferred Inflows of Resources</u>		
Property Taxes	1,691,423	1,686,045
Pension	25,750	-
Total Deferred Inflows of Resources	1,717,173	1,686,045
<u>Net Position</u>		
Net Investment in Capital Assets	23,807,686	22,500,524
Restricted	4,746,321	5,347,030
Unrestricted	(1,575,211)	(440,523)
Total Net Position	\$ 26,978,796	\$ 27,407,031

*Restated

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

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

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

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

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

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

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

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

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014 from \$31,366,302 to \$27,407,031.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2015, the City's assets exceeded liabilities and deferred inflows of resources by \$26,978,796.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

Capital assets reported on the government wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 69.37% of total assets. Capital assets include land, construction in progress, buildings, improvements other than building, machinery, equipment & vehicles and infrastructure. Net investment in capital assets at December 31, 2015, was \$23,807,686 in the governmental activities. 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, \$4,746,321, represents resources that are subject to external restriction on how they may be used.

The table below shows the changes in net position for the fiscal years 2015 and 2014.

	Governmental Activities	
	2015	2014
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 1,668,770	\$ 2,101,152
Operating Grants and Contributions	620,096	1,271,819
Capital Grants and Contributions	92,391	118,249
Total Program Revenues	2,381,257	3,491,220
General Revenues		
Property Taxes	1,718,410	1,722,886
Municipal Income Taxes	2,969,054	2,839,368
Investment Earnings	10,543	608
Grants and Entitlements not Restricted to Specific Programs	484,306	349,812
Other	40,769	98,546
Gain on Sale of Capital Assets	-	1,401
Total General Revenues	5,223,082	5,012,621
Total Revenues	7,604,339	8,503,841

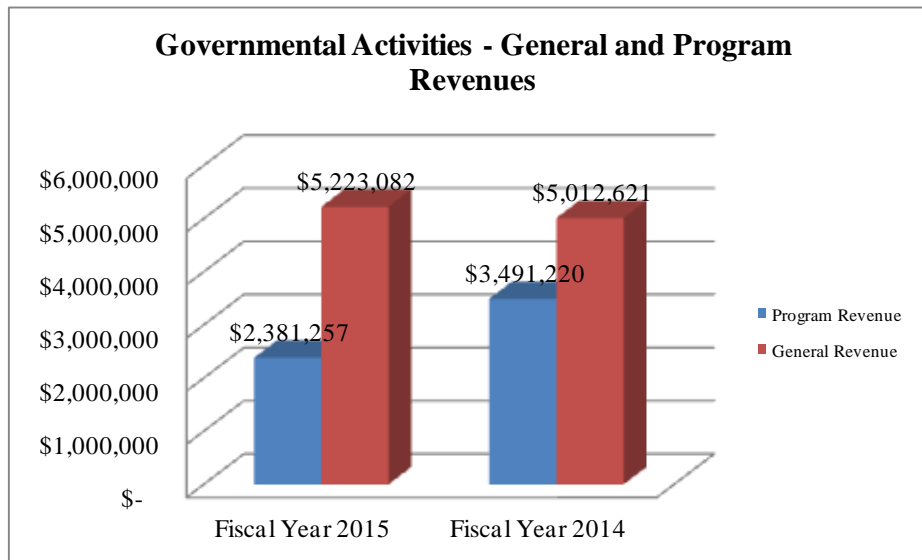
The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$438,312 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$472,173.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

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

Total 2015 program expenses under GASB 68	8,032,574
Pension expense under GASB 68	(472,173)
2015 contractually required contribution	419,013
Adjusted 2015 program expenses	7,979,414
Total 2014 program expenses under GASB 27	7,693,663
Increase in program expenses not related to pension	285,751



	2015	2014
<u>Program Expenses</u>		
Security of Persons and Property	3,174,513	3,489,686
Public Health Services	510,573	542,391
Basic Utility Services	505,036	378,062
Community Environment	523,262	323,342
Leisure Time Activities	107,285	110,302
Transportation	1,593,858	1,436,135
General Government	1,499,146	1,289,697
Interest and Fiscal Charges	118,901	124,048
Total Program Expenses	8,032,574	7,693,663
Increase in Net Position	(428,235)	810,178
Net Position, Beginning of Year, Restated	27,407,031	N/A
Net Position, End of Year	\$ 26,978,796	\$ 27,407,031

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

Governmental Activities

Governmental activities net position decreased \$428,235 in 2015. This decrease is partially a result of the implementation of GASB 68 and a decrease in program revenue. Charges for services decreased by \$432,382 compared to 2014. This decrease is a result of changes in billing process for solid waste. Operating grants and contributions decreased by \$651,723 compared to 2014. This decrease is a result of the City receiving additional federal grants in 2014.

The county, state and federal governments contributed to the City a total of \$620,096 in operating grants and contributions and \$92,391 in capital grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$5,223,082, and amounted to 68.69% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,687,464. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$484,306. Grants and entitlements not restricted to specific programs increased by \$134,494 compared to 2014. This increase is a result of the City receiving additional funds in 2015.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$3,174,513 of the total expenses of the City. These expenses were partially funded by \$305,960 in direct charges to users of the services, and \$3,802 in operating grants. Transportation expenses totaled \$1,593,858. Transportation expenses were funded by \$70,951 in direct charges to users of these services, and \$441,794 in operating grants and contributions and \$74,760 in capital grants and contributions.

Security of persons and property expense decreased by \$315,173 compared to 2014. This decrease is a result of a FEMA grant passed through the City of Olmsted Falls to the City of Strongsville in 2014, for the new central dispatch center. Public health expense decreased by \$31,818 compared to 2014. This decrease is a result of changes in the billing process for solid waste.

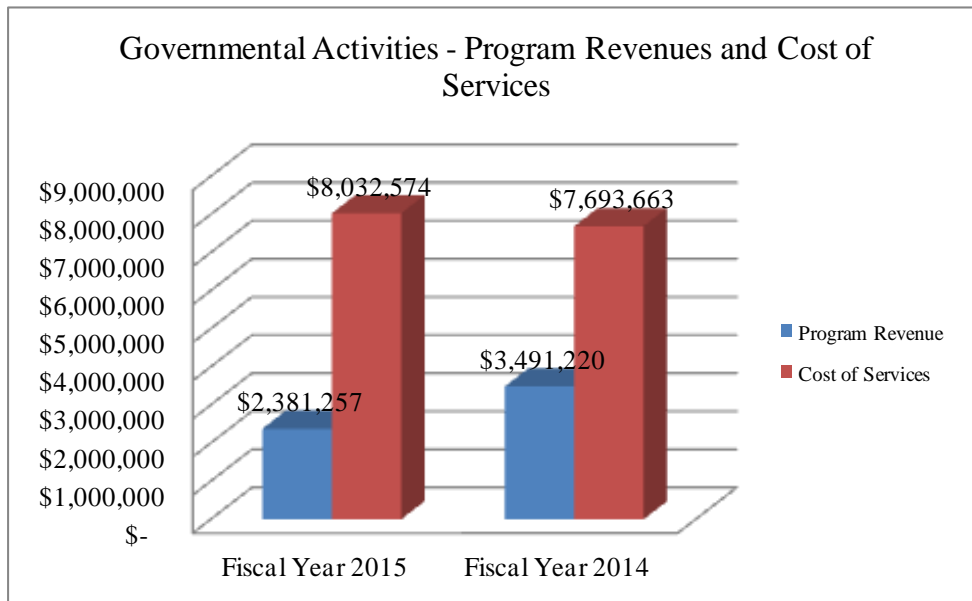
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported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

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

As can be seen in the following graph, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

	<u>2015</u>		<u>2014</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>				
Security of Persons and Property	\$ 3,174,513	\$ 2,864,751	\$ 3,489,686	\$ 2,923,817
Public Health Services	510,573	(36,183)	542,391	(524,532)
Basic Utility Services	505,036	192,405	378,062	(106,704)
Community Environment	523,262	126,423	323,342	128,010
Leisure Time Activities	107,285	96,440	110,302	102,869
Transportation	1,593,858	1,006,353	1,436,135	494,263
General Government	1,499,146	1,282,227	1,289,697	1,060,672
Interest and Fiscal Charges	118,901	118,901	124,048	124,048
Total Expenses	<u>\$ 8,032,574</u>	<u>\$ 5,651,317</u>	<u>\$ 7,693,663</u>	<u>\$ 4,202,443</u>



City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

In conclusion, the implementation of GASB Statement No. 68 requires the reader to perform additional calculations to determine the City's total net position at December 31, 2015 without the implementation of GASB Statement No. 68. This is an important exercise, as the State Pension Systems (OPERS & OP&F) collect, hold and distributes pensions to our employees, not the City. These calculations are as follows:

Total Net Position at December 31, 2015 (with GASB 68)	\$	26,978,796
GASB 68 Calculations:		
Add: Deferred Inflows related to Pension		25,750
Net Pension Liability		4,625,876
Less: Deferred Outflows related to Pension		(632,652)
Net Pension Asset		(6,543)
Total Net Position at December 31, 2015 (without GASB 68)	\$	30,991,227

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 financial requirements. In particular, unassigned fund balances may serve as a useful measure of the City's net resources available for spending at year end.

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$3,906,547 which is \$1,011,243 lower than last year's total of \$4,917,790. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2015 for all major and nonmajor governmental funds.

	Fund Balance		Increase (Decrease)
	2015	2014	
General	\$ 2,725,917	\$ 2,825,719	\$ (99,802)
Sewer debt project 4	(87,189)	(126,185)	38,996
Capital improvements	(1,185,232)	(895,708)	(289,524)
Other Governmental Funds	2,453,051	3,113,964	(660,913)
	\$ 3,906,547	\$ 4,917,790	\$ (1,011,243)

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2015 (Unaudited)

The general fund balance decreased by \$90,802. The table that follows assists in illustrating the revenues of the general fund.

	2015	2014	Percentage Change
<u>Revenues</u>			
Municipal Income Taxes	\$ 2,705,545	\$ 2,766,668	-2%
Property Taxes	436,083	448,045	-3%
Licenses and permits	253,279	247,137	2%
Intergovernmental	273,801	166,717	64%
Charges for services	895,435	630,349	42%
Fines and forfeitures	95,646	91,039	5%
Investment Income	2,974	608	389%
Other	26,502	89,081	-70%
Total Revenues	\$ 4,689,265	\$ 4,439,644	6%

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

	2015	2014	Percentage Change
<u>Expenditures</u>			
Security of Persons and Property	\$ 2,078,419	\$ 2,103,195	-1%
Public Health Services	466,927	494,683	-6%
Leisure Time Activities	2,483	14,474	-83%
Community Environment	294,056	276,542	6%
Basic Utility Services	35,835	19,173	87%
Transportation	506,770	498,964	2%
General Government	1,396,876	1,182,528	18%
Capital Outlay	568	-	100%
Principal Retirement	19,404	19,403	0%
Total Expenditures	\$ 4,801,338	\$ 4,608,962	4%

Sewer Debt Project 4 Fund

The sewer debt project 4 fund has revenues and other financing sources of \$69,692 in 2015. The expenditures of the sewer debt project 4 fund, totaled \$30,696 in 2015.

Capital Improvement Fund

The capital improvement fund had revenues of \$295,291 in 2015. The expenditures of the capital improvement fund, totaled \$584,815 in 2015. The net decrease in fund balance for the capital improvement fund was \$289,524 or 32.32%.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2015
(Unaudited)

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 resources certified by the Budget Commission in accordance with the ORC. If budgeted revenues are adjusted due to activity then appropriations can be adjusted accordingly.

In the general fund, the actual revenues and other financing sources came in \$42,980 more than they were in the final budget and actual expenditures and other financing uses were \$159,143 less than the amount in the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the City had \$26,386,016 (net of accumulated depreciation) invested in land, construction in progress, buildings, improvements other than buildings, machinery, equipment, vehicles and infrastructure. The following table shows fiscal 2015 balances compared to 2014:

	Governmental Activities	
	2015	2014
Land	\$ 1,439,268	\$ 1,439,268
Construction-in-progress	1,379,717	431,873
Buildings	4,567,743	4,643,659
Improvements other than buildings	653,364	542,476
Machinery, equipment, and vehicles	2,078,476	2,077,576
Infrastructures	16,267,448	16,517,286
Total Capital Assets	\$ 26,386,016	\$ 25,652,138

Refer to Note 9 for additional information on the City's capital assets.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2015
(Unaudited)

Debt Obligations

The City had the following debt obligations outstanding at December 31, 2015 and 2014:

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
W&SRC Loan	\$ 396,075	\$ 396,075
OWDA Loans	1,925,902	2,136,969
OPWC Loans	291,051	310,455
Capital Leases	123,739	204,753
Compensated Absences	331,994	397,410
Total Outstanding Debt	<u>\$ 3,068,761</u>	<u>\$ 3,445,662</u>

Refer to Note 11 for additional information on the City's debt obligations.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Mr. Steven Presley, Director of Finance, City of Olmsted Falls, 26100 Bagley Rd., Olmsted Falls, Ohio 44138-1897.

Basic Financial Statements

City of Olmsted Falls, Ohio

Statement of Net Position December 31, 2015

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 4,778,037
Materials and Supplies Inventory	15,015
Accounts Receivable	780,414
Intergovernmental Receivable	658,165
Prepaid Items	101,762
Municipal Income Taxes Receivable	1,340,694
Property Taxes Receivable	1,786,899
Special Assessments Receivable	1,891,075
Loans Receivable	291,051
Nondepreciable Capital Assets	2,818,985
Depreciable Capital Assets	23,567,031
Net Pension Asset	6,543
Total Assets	38,035,671
DEFERRED OUTFLOWS OF RESOURCES	
Pension	632,652
Total Deferred Outflows of Resources	632,652
LIABILITIES	
Accounts Payable	248,193
Contracts Payable	853,525
Accrued Wages and Benefits	42,923
Intergovernmental Payable	62,427
Matured Compensated Absences Payable	54,797
Accrued Interest Payable	8,919
Retainage Payable	69,933
Notes Payable	937,000
Long-term Liabilities:	
Due within one year	354,061
Due in more than one year:	
Net Pension Liability (See Note 15)	4,625,876
Due in more than one year	2,714,700
Total Liabilities	9,972,354
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	1,691,423
Pension	25,750
Total Deferred Inflows of Resources	1,717,173
NET POSITION	
Net Investment in Capital Assets	23,807,686
Restricted for:	
Debt Service	1,145,284
Capital Projects	601,240
Other Purposes	2,999,797
Unrestricted	(1,575,211)
Total Net Position	\$ 26,978,796

The notes to the basic financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Statement of Activities For the Year Ended December 31, 2015

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 3,174,513	\$ 305,960	\$ 3,802	\$ -	\$ (2,864,751)
Public Health Services	510,573	546,756	-	-	36,183
Leisure Time Activities	107,285	10,845	-	-	(96,440)
Community Environment	523,262	226,839	170,000	-	(126,423)
Basic Utility Services	505,036	295,000	-	17,631	(192,405)
Transportation	1,593,858	70,951	441,794	74,760	(1,006,353)
General Government	1,499,146	212,419	4,500	-	(1,282,227)
Interest and Fiscal Charges	118,901	-	-	-	(118,901)
Total Governmental Activities	\$ 8,032,574	\$ 1,668,770	\$ 620,096	\$ 92,391	(5,651,317)
General Revenues:					
Property Taxes levied for:					
General Purposes					434,032
Debt Service Purpose					113,126
Other Purposes					1,171,252
Municipal Income Taxes levied for:					
General Purposes					2,625,556
Capital Outlay					343,498
Grants & Entitlements not restricted to specific programs					484,306
Investment Income					10,543
All Other Revenues					40,769
Total General Revenues					5,223,082
Change in Net Position					(428,235)
Net Position - Beginning of Year, Restated					27,407,031
Net Position - End of Year					\$ 26,978,796

The notes to the basic financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Balance Sheet Governmental Funds December 31, 2015

	General Fund	Sewer Debt Project 4	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 1,348,794	\$ 94,588	\$ 63,304	\$ 3,271,351	\$ 4,778,037
Materials and Supplies Inventory	751	-	-	14,264	15,015
Accounts Receivable	695,533	-	-	84,881	780,414
Interfund Receivable	701,194	-	-	-	701,194
Intergovernmental Receivable	92,595	-	-	565,570	658,165
Prepaid Items	101,762	-	-	-	101,762
Income Taxes Receivable	1,179,811	-	134,069	26,814	1,340,694
Property Receivable	455,509	-	-	1,331,390	1,786,899
Special Assessments Receivable	-	771,094	-	1,119,981	1,891,075
Loans Receivable	291,051	-	-	-	291,051
Total Assets	\$ 4,867,000	\$ 865,682	\$ 197,373	\$ 6,414,251	\$ 12,344,306
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 130,560	\$ -	\$ -	\$ 117,633	\$ 248,193
Accrued Wages and Benefits	42,681	-	-	242	42,923
Contracts Payable	-	-	260,408	593,117	853,525
Intergovernmental Payable	38,065	-	-	24,362	62,427
Matured Compensated Absences Payable	54,797	-	-	-	54,797
Accrued Interest Payable	-	-	3,373	403	3,776
Retainage Payable	-	-	48,067	21,866	69,933
Interfund Payable	-	181,777	148,259	371,158	701,194
Notes Payable	-	-	837,000	100,000	937,000
Total Liabilities	266,103	181,777	1,297,107	1,228,781	2,973,768
Deferred Inflows of Resources:					
Property Taxes	431,173	-	-	1,260,250	1,691,423
Unavailable Revenue - Delinquent Property Taxes	24,336	-	-	71,140	95,476
Unavailable Revenue - Income Taxes	735,851	-	85,498	17,100	838,449
Unavailable Revenue - Special Assessments	-	771,094	-	1,119,981	1,891,075
Unavailable Revenue - Other	683,620	-	-	263,948	947,568
Total Deferred Inflows of Resources	1,874,980	771,094	85,498	2,732,419	5,463,991
Fund Balances:					
Nonspendable	393,564	-	-	14,264	407,828
Restricted	-	-	-	3,190,365	3,190,365
Committed	72,842	-	-	-	72,842
Assigned	951,707	-	-	41,077	992,784
Unassigned (Deficit)	1,307,804	(87,189)	(1,185,232)	(792,655)	(757,272)
Total Fund Balances	2,725,917	(87,189)	(1,185,232)	2,453,051	3,906,547
Total Liabilities, Deferred Inflows of Resources & Fund Balances	\$ 4,867,000	\$ 865,682	\$ 197,373	\$ 6,414,251	\$ 12,344,306

The notes to the basic financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities December 31, 2015

Total Governmental Fund Balances		\$ 3,906,547
<i>Amounts reported for Governmental Activities in 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.		26,386,016
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenues in the funds:		
Delinquent Property taxes	95,476	
Municipal Income taxes	838,449	
Special assessments	1,891,075	
Intergovernmental	870,576	
Charges for services	76,992	
Total	3,772,568	3,772,568
In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.		(5,143)
The net pension liability/asset is not due and payable in the current period; therefore, the liability/asset and related deferred inflows/outflows are not reported in governmental funds:		
Net Pension Asset	6,543	
Deferred Outflows - Pension	632,652	
Deferred Inflows - Pension	(25,750)	
Net Pension Liability	(4,625,876)	
Total	(4,012,431)	(4,012,431)
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds:		
OPWC loan	(291,051)	
OWDA loans	(1,925,902)	
Capital leases	(123,739)	
Ohio W&SRC Loan	(396,075)	
Compensated absences	(331,994)	
Total	(3,068,761)	(3,068,761)
Net Position of Governmental Activities		\$ 26,978,796

The notes to the basic financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

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

	General Fund	Sewer Debt Project 4	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 436,083	\$ -	\$ -	\$ 1,290,583	\$ 1,726,666
Municipal Income Taxes	2,705,545	-	295,291	59,058	3,059,894
Intergovernmental	273,801	-	-	876,774	1,150,575
Investment Income	2,974	-	-	-	2,974
Licenses and Permits	253,279	-	-	-	253,279
Fines and Forfeitures	95,646	-	-	4,906	100,552
Charges for Services	895,435	-	-	260,917	1,156,352
Special Assessments	-	55,540	-	372,761	428,301
All Other Revenues	26,502	-	-	29,376	55,878
Total Revenues	4,689,265	55,540	295,291	2,894,375	7,934,471
EXPENDITURES					
Security of Persons and Property	2,078,419	-	-	806,331	2,884,750
Public Health Services	466,927	-	-	44,344	511,271
Leisure Time Activities	2,483	-	-	93,558	96,041
Community Environment	294,056	-	-	246,992	541,048
Basic Utility Services	35,835	-	-	406,329	442,164
Transportation	506,770	-	31,369	642,859	1,180,998
General Government	1,396,876	-	10,527	6,233	1,413,636
Capital Outlay	568	-	535,755	933,021	1,469,344
Debt Service:					
Principal Retirement	19,404	2,795	-	423,794	445,993
Interest and Fiscal Charges	-	27,901	7,164	75,516	110,581
Total Expenditures	4,801,338	30,696	584,815	3,678,977	9,095,826
Excess of Revenues Over (Under) Expenditures	(112,073)	24,844	(289,524)	(784,602)	(1,161,355)
OTHER FINANCING SOURCES					
Sale of Capital Assets	12,271	-	-	3,333	15,604
Inception of Capital Lease	-	-	-	120,356	120,356
OWDA Loans Issued	-	14,152	-	-	14,152
Total Other Financing Sources	12,271	14,152	-	123,689	150,112
Net Change in Fund Balances	(99,802)	38,996	(289,524)	(660,913)	(1,011,243)
Fund Balances - Beginning of Year	2,825,719	(126,185)	(895,708)	3,113,964	4,917,790
Fund Balances - End of Year	\$ 2,725,917	\$ (87,189)	\$ (1,185,232)	\$ 2,453,051	\$ 3,906,547

The notes to the basic financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds	(1,011,243)
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

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

Capital Outlay	1,377,682	
Depreciation	(621,400)	
Total		756,282

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(22,404)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property taxes	(8,256)	
Municipal Income taxes	(90,840)	
Special assessments	(266,544)	
Intergovernmental	599,719	
Charges for services	(707,939)	
Total		(473,860)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of an OWDA loan and the inception of a capital lease.	(134,508)
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Repayment of debt principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	445,993
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows	419,013
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(472,173)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	65,416	
Accrued interest	(751)	
Total		64,665

Change in Net Position of Governmental Activities	(428,235)
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The notes to the basic financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 375,305	\$ 407,853	\$ 436,083	\$ 28,230
Municipal Income Taxes	2,475,202	2,689,860	2,682,990	(6,870)
Charges for Services	854,582	928,694	926,322	(2,372)
Licenses and Permits	233,028	253,237	252,590	(647)
Fines and Forfeitures	93,942	102,089	101,828	(261)
Intergovernmental	247,381	268,835	268,148	(687)
Investment Income	2,744	2,982	2,974	(8)
All Other Revenues	97,192	102,582	29,946	(72,636)
Total Revenues	4,379,376	4,756,132	4,700,881	(55,251)
Expenditures:				
Current:				
Security of Persons and Property	2,791,828	2,238,288	2,196,536	41,752
Public Health Services	506,826	476,826	468,865	7,961
Leisure Time Activities	13,250	15,650	1,399	14,251
Basic Utility Services	263,374	313,429	303,582	9,847
Community Environment	17,304	48,864	48,864	-
Transportation	543,354	558,764	527,961	30,803
General Government	1,139,226	1,518,956	1,464,427	54,529
Debt Service:				
Principal	19,404	19,404	19,404	-
Total Expenditures	5,294,566	5,190,181	5,031,038	159,143
Excess of Revenues Over (Under) Expenditures	(915,190)	(434,049)	(330,157)	103,892
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	12,271	12,271
Transfers Out	(40,000)	-	-	-
Advances Out	-	(378,362)	(378,362)	-
Total Other Financings Sources (Uses)	(40,000)	(378,362)	(366,091)	12,271
Net Change in Fund Balance	(955,190)	(812,411)	(696,248)	116,163
Fund Balance - Beginning of Year, Restated	1,826,323	1,826,323	1,826,323	-
Prior Year Encumbrances Appropriated	147,488	147,488	147,488	-
Fund Balance - End of Year	\$ 1,018,621	\$ 1,161,400	\$ 1,277,563	\$ 116,163

The notes to the basic financial statements are an integral part of this statement

City of Olmsted Falls, Ohio

Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2015

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 106,524
Total Assets	<u>\$ 106,524</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 106,524
Total Liabilities	<u>\$ 106,524</u>

The notes to the basic financial statements are an integral part of this statement

City of Olmsted Falls, Ohio

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

Note 1: Description of City and Reporting Entity

The City of Olmsted Falls, Cuyahoga County, (the City) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City was incorporated in 1851 and became a city in 1972. Under the City Charter adopted in July 1972, the City has an elected mayor-council form of government. Council is composed of seven members, three at large and one for each of the City's four wards, all elected for terms of two years. The Director of Law, Director of Finance, Safety Director, Service Director and Economic Development Director are appointed by the Mayor and confirmed by Council.

Reporting Entity

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

The City as a primary government consists of all funds and the departments, which are not legally separate from the City. They include a police force, a fire fighting force, a mayor's court, a street maintenance force, planning and zoning departments, a park and recreation system and a staff to provide essential support to these service providers. The operation of each of these activities is directly controlled by the City Council through the budgetary process and is therefore included as part of the reporting entity. Included in the determination of the City's reporting entity is the Mayor's Court of Olmsted Falls (Court). The territorial jurisdiction of the Court is in the boundaries of the City and has been included in the City's financial statements as an agency fund. The Mayor is an elected official who has fiduciary responsibility for the collection and distribution of the court fees and fines.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City is associated with five jointly governed organizations, the Northeast Ohio Public Energy Council, Chestnut Grove Union Cemetery, Joint Economic Development District, Southwest Council of Governments, and the Southwest General Health Center. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. These organizations are presented in Note 14.

City of Olmsted Falls, Ohio

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

Note 1: Description of City and Reporting Entity (continued)

The Reporting Entity (continued)

The Olmsted Falls City School and the Berea City School Districts service the boundaries of the City. Both are distinct political subdivisions of the State of Ohio and each is operated under an elected school board possessing its own budgetary and taxing authority. Accordingly, the school districts are not considered part of the City and their operations are not included within the accompanying financial statements.

The Cuyahoga County Public Library (the Library), located within the boundaries of the City, is a distinct political subdivision of the State of Ohio operated under the supervision of the Cuyahoga County Public Library District. The Library is not a component unit of the reporting entity and is not reflected within the accompanying financial statements.

Each year, the residents of Olmsted Falls are assessed, through a tax levy, for a portion of the general operating expenses of the Chestnut Grove Union Cemetery. For 2015, the amount paid to the Chestnut Grove Union Cemetery amounted to \$34,863. The residents are also assessed, through a tax levy, for a portion of the operating expenses of Southwest General Hospital. The amount paid in 2015 to Southwest General Hospital amounted to \$44,344. Both of these organizations exercise their own budgetary and financial management authority. Therefore, they are not considered part of the City and their operations are not reflected in the City's financial statements.

Note 2: Summary of Significant Accounting Policies

The financial statements of the City of Olmsted Falls have been prepared in conformity with generally accepted accounting principles (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. Basis of Presentation

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.

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

The statement of net position presents the financial condition of the governmental 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. 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 not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: Governmental, Proprietary and Fiduciary. The City does not have proprietary funds.

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 financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Sewer Debt Project 4 Fund – This fund is used to account for special assessments and transfers that are utilized for the repayment of OWDA loans for a sewer project.

Capital Improvement Fund – This fund is used to account for income tax revenue to be used for capital projects.

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

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. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City only has Agency funds. Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Measurement Focus

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

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the 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. Available period for the City is sixty days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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), fines and forfeitures, licenses and permits, interest, grants and entitlements and fees.

Deferred Outflows/Inflows of Resources – In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 15.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time.

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 15)

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level and personal services for all funds. Any budgetary modifications at this level may only be made by resolution of the City Council. The Director of Finance is authorized to transfer appropriations between line items within a function or object of any department.

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1st to March 31st. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1st to December 31st. The appropriation ordinance fixes spending authority at the department level separated into the categories of salaries and wages, and other expenses. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations may not exceed current estimated resources, as certified. During the year, several supplemental appropriation measures were passed. The amounts reported as the budgeted amounts represent the original and final appropriation amounts passed by Council during the year.

Encumbrances - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to constrain that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as a component of fund balances for subsequent-year expenditures for the General Fund.

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

F. 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 Cash Equivalents."

During 2015, the City's investments were limited to STAR Ohio and repurchase agreements valued at cost. Investments are reported at fair value. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2015.

The provisions of the Ohio Revised Code restrict investment procedures. Interest revenue credited to the general fund during 2015 amounted to \$2,974 which includes \$2,134 assigned from other funds. Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure in the year in which the services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are recorded as expenditures in the governmental funds when used. Inventory consists of expendable supplies held for consumption.

I. Capital Assets

General capital 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.

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 fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of streets, sanitary sewers, bridges and traffic signals. Traffic signals acquired prior to January 1, 2002 are not reported. 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. Retro to December 31, 2004, the City has implemented a bridge infrastructure accounting of all bridges greater than a ten-foot span.

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	25 - 110 years
Improvements other than Buildings	10 - 50 years
Machinery, equipment and vehicles	5 - 75 years
Infrastructure	20 - 100 years

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Loans resulting from negative cash balances are reported as "due to /from other funds." Interfund balance amounts are eliminated in the statement of net position.

K. Compensated Absences

Holiday, personal, vacations and other leave balances are a use it or lose it policy. Individual exceptions are allowed to carry forward certain unused amounts into the next year. Generally, such requests are infrequent.

Sick leave benefits are accrued as a liability using the vesting method. The financial reporting policy for recognition of compensated absences of sick time is based upon all employees considered vested after one year of employment and eligible for termination cash out. Or, it is assumed that all hired employees will terminate employment from the city and be eligible for cash out of unused sick time based upon the allocation ratio in effect at the fiscal year-end.

L. Pensions

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

N. Fund Balance

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

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

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

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

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

N. Fund Balance (continued)

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, or by State Statute.

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

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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

O. Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for road improvements, police and fire related activities, sewer improvements, parks, and computerization of the mayor's court.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

P. Interfund Activity

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

City of Olmsted Falls, Ohio

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

Note 2: Summary of Significant Accounting Policies (continued)

P. Interfund Activity (continued)

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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. The City had neither type of transaction during 2015.

R. Estimates

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

Note 3: Change in Accounting Principles and Restatement of Net Position and Budgetary Balance

A. Change in Accounting Principles and Restatement of Net Position

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

The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	Governmental Activities
Net Position as of December 31, 2014	\$ 31,366,302
Adjustments:	
Net Pension Liability	(4,399,366)
Net Pension Assets	1,783
Deferred Outflow - Payments Subsequent to Measurement Date	438,312
Restated Net Position December 31, 2014	<u>\$ 27,407,031</u>

City of Olmsted Falls, Ohio

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

Note 3: Change in Accounting Principles and Restatement of Net Position and Budgetary Balance

A. Change in Accounting Principles and Restatement of Net Position (continued)

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

B. Restatement of Budgetary Balance

The beginning balance was restated on the statement of revenues, expenditures and changes in fund balances – Budget and Actual statement for the General Fund.

Note 4: Accountability

Accountability

The following funds had a deficit fund balance at December 31, 2015:

	<u>Deficit</u>
<u>Major governmental funds</u>	
Sewer Debt Project 4 Fund	\$ 87,189
Capital Improvement Fund	1,185,232
<u>Nonmajor governmental funds</u>	
Fire Pension	6,412
Police Pension	9,691
Street Lighting Fund	3,164
Community Development Block Grant Fund	43,165
Recreation Fund	7,361
General Bond Retirement Fund	60,509
Water Debt Project	20,361
Sanitary Sewer Phase 5 Fund	103,964
Railroad Improvement Fund	20,296
Mapleway Drive Improvements	422,849
Main Street Parking Lot	94,883

Most of these deficits resulted from the recognition of accrued liabilities. The general fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than accruals occur.

City of Olmsted Falls, Ohio

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

Note 5: Fund Balances

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

	General	Sewer Debt Project 4	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 101,762	\$ -	\$ -	\$ -	\$ 101,762
Inventories	751	-	-	14,264	15,015
Loan Receivable	291,051	-	-	-	291,051
Total Nonspendable	393,564	-	-	14,264	407,828
<i>Restricted</i>					
Road Improvements	-	-	-	992,498	992,498
Police and Fire Departments	-	-	-	154,201	154,201
Drug and Alcohol Enforcement	-	-	-	242	242
Juvenile Diversion	-	-	-	13,517	13,517
Law Enforcement	-	-	-	57,509	57,509
Sanitary Sewer Improvements	-	-	-	822,722	822,722
Shade Trees	-	-	-	38,760	38,760
Storm Sewer Improvements	-	-	-	138,987	138,987
Capital Improvements	-	-	-	565,328	565,328
Equipment	-	-	-	23,955	23,955
Park	-	-	-	235,277	235,277
Covered Bridge	-	-	-	11,558	11,558
FEMA	-	-	-	24,434	24,434
Cemetery	-	-	-	2,575	2,575
Southwest Hospital	-	-	-	2,967	2,967
Debt Service Payments	-	-	-	105,835	105,835
Total Restricted	-	-	-	3,190,365	3,190,365
<i>Committed</i>					
Compensated Absences	72,842	-	-	-	72,842
Total Committed	72,842	-	-	-	72,842
<i>Assigned</i>					
Fiscal Year 2016 Appropriations	816,375	-	-	-	816,375
Purchases on Order	135,332	-	-	-	135,332
Park Operations	-	-	-	41,077	41,077
Total Assigned	951,707	-	-	41,077	992,784
<i>Unassigned (Deficit)</i>	1,307,804	(87,189)	(1,185,232)	(792,655)	(757,272)
Total Fund Balance	\$ 2,725,917	\$ (87,189)	\$ (1,185,232)	\$ 2,453,051	\$ 3,906,547

City of Olmsted Falls, Ohio

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

Note 6: Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are monies identified as not required for use within the current five year period of designation of depositories.

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

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

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;
- 4 Investment grade obligations of state and local governments, and public authorities;
- 5 No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
- 6 The State Treasurer's investment pool (STAR Ohio).

City of Olmsted Falls, Ohio

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

Note 6: Deposits and Investments (continued)

The City may also invest any monies not required to be used for a period of 6 months or more in the following:

1. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and,
2. Obligations of the City

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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City 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 may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At December 31, 2015, the carrying amount of the City's deposits was \$1,337,322 and the bank balance was \$1,436,522. Of the bank balance \$1,135,965 was exposed to custodial risk as discussed below and \$300,557 was covered by the Federal Deposit Insurance Corporation. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim 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 entity. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository whose market value at all times shall be at least one hundred five percent of all deposits being secured.

City of Olmsted Falls, Ohio

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

Note 6: Deposits and Investments (continued)

B. Investments

Investments are reported at fair value. As of December 31, 2015, the City had the following investments:

	Fair Value	Credit Rating	Investment Maturities (in Years) <1
<u>Investment Type:</u>			
StarOhio	\$ 2,587,239	AAAm	\$ 2,587,239
Repurchase Agreement	960,000	N/A	960,000
Total Investments	3,547,239		\$ 3,547,239
Carrying Amount of Deposits	1,337,322		
Total	\$ 4,884,561		

Interest Rate Risk – Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City’s investment policy addresses interest rate risk requiring that the City’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than two years.

Credit Risk -The City’s investment policy addresses credit risk by requiring that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer.

The credit ratings of the City’s investments are provided in the table above and are rated by Standard & Poor’s.

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, 2015:

	Fair Value	Percent of Total
<u>Investment Type:</u>		
StarOhio	\$ 2,587,239	73%
Repurchase Agreement	960,000	27%
Total Investments	\$ 3,547,239	

City of Olmsted Falls, Ohio

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

Note 6: Deposits and Investments (continued)

Reconciliation of Cash and Investment 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, 2015.

<u>Cash and Investments</u>	
Carrying amount of deposits	\$ 1,337,322
Investments	3,547,239
Total	\$ 4,884,561
 Cash and Investments per Statement of Net Position	
Governmental Activities	\$ 4,778,037
Fiduciary Funds	106,524
Total	\$ 4,884,561

Note 7: Interfund Transfers and Balances

Interfund loans consisted of the following amounts “due to/from other funds” at December 31, 2015, as reported on the fund financial statements.

<u>Fund</u>	Receivable	Payable
General	\$ 701,194	\$ -
Sewer Debt Project 4	-	181,777
Capital Improvement	-	148,259
Nonmajor Governmental Funds	-	371,158
Total	\$ 701,194	\$ 701,194

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at December 31, 2015 are reported on the statement of net position.

Note 8: Receivables

Receivables at December 31, 2015, consisted of municipal income taxes, property taxes, accounts, due from other governments, loans, and special assessments. All receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of the 2014 taxes. Property tax payments received during 2015 for tangible personal property (other than public utility property) are for 2014 taxes.

City of Olmsted Falls, Ohio

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

Note 8: Receivables (continued)

A. Property Taxes (continued)

2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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

The full tax rate applied to real property for the fiscal year ended December 31, 2015 was \$13.35 for \$1,000 of assessed valuation. The assessed values of real and tangible personal property, upon which 2015 property tax receipts were based, are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
<u>Real Property</u>		
Residential and agricultural	\$165,517,700	87.41
Commercial and industrial	19,229,570	10.16
<u>Tangible Personal Property</u>		
Public utilities	4,605,850	2.43
Total	<u>\$189,353,120</u>	<u>100.00</u>

The Cuyahoga County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2015 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by a deferred inflow of resources since current taxes were not levied to finance 2015 operations and the collection of delinquent 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 the modified accrual basis the revenue is deferred.

City of Olmsted Falls, Ohio

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

Note 8: Receivables (continued)

B. Income Taxes

The City levies an income tax of 1.50% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income earned outside the City; however, a 50% credit up to .75% is allowed for income taxes paid to other municipalities. Employers within the City are required to withhold income tax on employee earnings and remit the tax at least quarterly to the Regional Income Tax Agency, who administers the City's income tax collections. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

By City Ordinance, income taxes shall be deposited in the General Fund, except that ten percent and two percent of such collections shall be deposited annually in the Capital Improvement Fund and the Capital Improvement Service Equipment Fund, respectively.

C. Intergovernmental Receivable

A summary of intergovernmental receivables as of December 31, 2015, follows:

<u>Revenue Description</u>	<u>Amount</u>
Cents Per Gallon and Excise Tax	\$ 158,063
Homestead and Rollback	135,630
Local Government	58,042
Motor Vehicle Tax	12,816
Permissive Tax	5,167
Grants	267,600
Miscellaneous	20,847
Total Intergovernmental Receivable	<u>\$ 658,165</u>

D. Loan Receivable

The City is reporting a long-term loan receivable related to the Westlawn/Lindbergh Sewer project. During 2006, the Cities of Olmsted Falls and Berea entered into an agreement that involves the construction of sanitary and storm sewers in the Westlawn/Lindbergh area. As part of this agreement, the City has entered into a loan agreement with the Ohio Public Works Commission (OPWC) in the amount of \$388,070 to help fund some of the construction costs. Although the City of Olmsted Falls is obligated for the entire loan amount, the agreement between the Cities obligates the City of Berea to make annual debt service payments to the City of Olmsted Falls and the City of Olmsted Falls makes the payment to the OPWC.

As of December 31, 2015, the full amount of the loan has been "drawn down", thus creating a long-term OPWC loan payable by the City (See Note 11). A corresponding long-term loan receivable has been reported in the City's financial statements in the amount of \$291,051, which represents the amount owed by the City of Berea to the City. This loan is classified as a loan receivable, considered collectible in full, and is expected to be collected in more than one year. The loan receivable on the modified statement is offset by nonspendable fund balance.

City of Olmsted Falls, Ohio

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

Note 9: Capital Assets

Capital asset activity for Governmental Activities for the year ended December 31, 2015:

	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 1,439,268	\$ -	\$ -	\$ 1,439,268
Construction in Progress	431,873	947,844	-	1,379,717
Total Capital Assets Not Being Depreciated	<u>1,871,141</u>	<u>947,844</u>	<u>-</u>	<u>2,818,985</u>
Capital Assets, being depreciated:				
Buildings	5,522,228	-	-	5,522,228
Improvements other than buildings	632,153	135,152	-	767,305
Machinery, equipment, and vehicles	4,014,882	294,686	(109,207)	4,200,361
Infrastructure				
Traffic Signals	419,817	-	-	419,817
Bridges	11,786,551	-	-	11,786,551
Roads	1,349,952	-	-	1,349,952
Sanitary Sewers	4,234,365	-	-	4,234,365
Total Capital Assets, being Depreciated	<u>27,959,948</u>	<u>429,838</u>	<u>(109,207)</u>	<u>28,280,579</u>
Less Accumulated Depreciation:				
Buildings	(878,569)	(75,916)	-	(954,485)
Improvements other than buildings	(89,677)	(24,264)	-	(113,941)
Machinery, equipment, and vehicles	(1,937,306)	(271,382)	86,803	(2,121,885)
Infrastructure				
Traffic Signals	(55,605)	(8,396)	-	(64,001)
Bridges	(394,708)	(117,487)	-	(512,195)
Roads	(424,888)	(67,497)	-	(492,385)
Sanitary Sewers	(398,198)	(56,458)	-	(454,656)
Total Accumulated Depreciation	<u>(4,178,951)</u>	<u>(621,400) *</u>	<u>86,803</u>	<u>(4,713,548)</u>
Total Capital Assets, being Depreciated, Net	<u>23,780,997</u>	<u>(191,562)</u>	<u>(22,404)</u>	<u>23,567,031</u>
Governmental Activities Capital Assets, Net	<u>\$ 25,652,138</u>	<u>\$ 756,282</u>	<u>\$ (22,404)</u>	<u>\$ 26,386,016</u>

*Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 174,213
Basic Utility Services	56,458
Community Environment	897
Leisure Time Activities	10,109
Transportation	319,468
General Government	60,255
Total Depreciation Expense	<u>\$ 621,400</u>

City of Olmsted Falls, Ohio

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

Note 10: Note Debt

The City's note activity, including amounts outstanding and interest rates, is as follows:

	Balance		Balance	
	12/31/2014	Increase	Decrease	12/31/2015
2014 Fire Station Improvement Notes 0.55%	\$ 250,000	\$ -	\$ (250,000)	\$ -
2014 Building Improvement Notes 0.55%	758,000	-	(758,000)	-
2014 Various Purpose Notes 0.55%	88,000	-	(88,000)	-
2014 Various Purpose Notes 0.55%	89,000	-	(89,000)	-
2014 Real Estate Notes 0.55%	230,000	-	(230,000)	-
2015 Fire Station Improvement Notes 0.99%	-	100,000	-	100,000
2015 Building Improvement Notes 0.99%	-	545,000	-	545,000
2015 Sanitary Sewer Notes 0.99%	-	64,000	-	64,000
2015 Street Improvements Notes 0.99%	-	63,000	-	63,000
2015 Real Estate Notes 0.99%	-	165,000	-	165,000
Total	<u>\$ 1,415,000</u>	<u>\$ 937,000</u>	<u>\$ (1,415,000)</u>	<u>\$ 937,000</u>

In 2015, the City issued \$937,000 in bond anticipation notes for fire station improvements, building improvements, real estate, and various other purposes. These notes mature on August 4, 2016.

The notes are backed by the full faith and credit of the City of Olmsted Falls and mature within one year. The note liability is reflected in the fund which received the proceeds.

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City of Olmsted Falls, Ohio

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

Note 11: Long-Term Obligations

The City had the following activity in long-term obligations during 2015:

	Restated			Amount	
	Balance 12/31/2014	Increase	Decrease	Balance 12/31/2015	Due In a Year
1998 Ohio Water and Sewer Rotary Commission Loan	\$ 396,075	\$ -	\$ -	\$ 396,075	\$ -
Ohio Water Development Authority Loans (OWDA):					
1995 Water Mains 6.56%	246,741	-	(49,002)	197,739	52,216
1995 Sanitary Sewers 4.35%	698,695	-	(143,788)	554,907	150,111
2002 Sanitary Sewers 3.95%	326,290	-	(25,627)	300,663	26,650
2002 Storm Sewers 5.70%	55,747	-	(4,007)	51,740	4,239
2009 Sanitary Sewers 3.25%	809,496	14,152	(2,795)	820,853	51,661
Subtotal OWDA Loans	<u>2,136,969</u>	<u>14,152</u>	<u>(225,219)</u>	<u>1,925,902</u>	<u>284,877</u>
2006 Ohio Public Works Commission 0.00%	310,455	-	(19,404)	291,051	19,403
Net Pension Liability					
OPERS	1,321,513	30,537	-	1,352,050	-
OP&F	3,077,853	195,973	-	3,273,826	-
Total Net Pension Liability	<u>4,399,366</u>	<u>226,510</u>	<u>-</u>	<u>4,625,876</u>	<u>-</u>
Other Long-Term Liabilities:					
Capital Leases	204,753	120,356	(201,370)	123,739	31,452
Compensated Absences	397,410	31,340	(96,756)	331,994	18,329
Total Other Long-Term Liabilities	<u>602,163</u>	<u>151,696</u>	<u>(298,126)</u>	<u>455,733</u>	<u>49,781</u>
Total Long-Term Obligations	<u>\$ 7,845,028</u>	<u>\$ 392,358</u>	<u>\$ (542,749)</u>	<u>\$ 7,694,637</u>	<u>\$ 354,061</u>

Ohio Water and Sewer Rotary Commission (W&SRC) - The City obtained resources from the Ohio Water and Sewer Rotary Commission during fiscal year 1998 to pay for the cost of improvements contained within an Agricultural District within the City. The collections of special assessments within an agricultural district are exempt under the terms of Ohio Revised Code Section 929.03. The full amount of the assessment for the portion of the property, for which the use has changed, pursuant to the Revised Code, is due within ten days and must be repaid by the City regardless of whether the City has collected the full amount from property owners at that time. No part of the Ohio Water and Sewer Rotary Commission debt is due until use has changed per the requirements of the law.

The amount of filing and unbilled special assessments for the improvements within the Agricultural District was \$396,075. There was no change in the status of the parcels for the fiscal year ended December 31, 2015.

Ohio Water Development Authority (OWDA) - The City has obtained loans from OWDA for water and sewer line extension in fiscal years 1995. The sewer projects have been mandated by the Ohio environmental Protection Agency. These loans will be paid from the debt service funds using special assessments levied against benefited property owners.

City of Olmsted Falls, Ohio

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

Note 11: Long-Term Obligations (continued)

In the event that a property owner would fail to pay the assessment, the City would make payment. These loans are paid for from various debt service funds.

During fiscal year 2002, the City obtained two loans from OWDA. One loan is for the construction of storm sewer lines. The second loan is for the construction of sanitary sewer lines, the dismantling of a primary treatment plant and conversion to a pump station. These loans are paid for from the Capital Improvements Fund.

During fiscal year 2009, the City obtained a loan from OWDA. This loan is for the construction of sanitary sewer lines. This loan has been finalized in 2015, and the first payment is due in 2016. This loan is paid for from the Sewer Debt Project 4 Fund.

Ohio Public Works Commission (OPWC) – During 2006, the Cities of Olmsted Falls and Berea entered into an agreement that involves the construction of sanitary and storm sewers in the Westlawn/Lindbergh area. As part of this agreement, the City has entered into a loan agreement with the Ohio Public Works Commission (OPWC) in the amount of \$388,070 to help fund some of the construction costs. Although the City of Olmsted Falls is obligated for the entire loan amount, the agreement between the Cities obligates the City of Berea to make annual debt service payments to the City of Olmsted Falls and the City of Olmsted Falls makes the payment to the OPWC.

During 2010, the City entered into a loan in the amount of \$507,681 and grant in the amount of \$2,083,379 with OPWC for the Columbia/Cook Sanitary Sewer Phase V project. No monies have been spent or drawdown for this project.

Compensated Absences - Compensated absences will be paid from the fund from which the employee's salary is paid.

The City's overall legal debt margin was \$19,882,078 and an unvoted debt margin of \$9,932,422 at December 31, 2015. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015, are as follows:

Year	OWDA Loans		OPWC	Total	
	Principal	Interest	Loans Principal	Principal	Interest
2016	284,877	74,243	19,403	304,280	74,243
2017	297,904	61,346	19,404	317,308	61,346
2018	311,557	47,825	19,403	330,960	47,825
2019	206,963	33,651	19,404	226,367	33,651
2020	95,242	26,601	19,403	114,645	26,601
2021-2025	508,331	80,508	97,017	605,348	80,508
2026-2030	221,028	11,759	97,017	318,045	11,759
	<u>\$ 1,925,902</u>	<u>\$ 335,933</u>	<u>\$ 291,051</u>	<u>\$ 2,216,953</u>	<u>\$ 335,933</u>

City of Olmsted Falls, Ohio

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

Note 12: Capital Leases

In 2009, the City entered into lease agreements for a fire truck. In 2012, the City entered into a lease agreement for a service truck. In 2014, the City entered into an agreement for a compact wheel loader. In 2015, the City entered into an agreement for a plow truck in the amount of \$120,356.

The capital assets acquired by the leases have been capitalized and depreciated as follows as of December 31, 2015:

	Governmental Activities
Capital Leases, being depreciated	
Vehicles	\$ 1,134,642
Total Capital Leases, being depreciated	1,134,642
Less Accumulated Depreciation	
Vehicles	(291,844)
Total Accumulated Depreciation	(291,844)
Capital Leases, Net	\$ 842,798

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2015.

Year	Payment
2016	35,034
2017	35,034
2018	35,034
2019	13,998
2020	13,998
	133,098
Less Interest	(9,359)
Future Minimum Lease	\$ 123,739

City of Olmsted Falls, Ohio

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

Note 13: Risk Management

The City of Olmsted Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. During 2015, the City contracted through the Arthur J. Gallagher & Co. for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
U.S. Specialty Insurance Company	Building and Property (including Boiler and Machinery)	\$ 15,885,109
	Inland Marine	887,139
	Flood	1,000,000
	Earthquake	1,000,000
	General Liability	3,000,000
	Public Officials Liability	1,000,000
	Law Enforcement Liability	1,000,000
	Electronic Data Processing	250,000
	Theft, Disappearance & Destruction	25,000
	Employee Dishonesty	50,000
	Forgery and Alteration	50,000
	Computer Fraud	50,000
	Fire Damage Liability	100,000
	Medical Payments	10,000
	Ohio Stop Gap Liability	1,000,000
	Employee Benefits Liability	3,000,000
	Automobile Liability	1,000,000
	Automobile Medical Payments	5,000
	Uninsured Motorist Liability	100,000
	Umbrella Liability	10,000,000

The City carries commercial insurance coverage for all risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there were no significant reductions in coverage from the prior year. Workers' Compensation coverage is provided by the State. The City pays the Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Olmsted Falls, Ohio

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

Note 14: Jointly Governed Organizations

A. Northeast Ohio Public Energy Council (NOPEC)

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Olmsted Falls did not contribute to NOPEC during 2015. Financial information can be obtained by contacting Roy McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

B. Chestnut Grove Union Cemetery

The Chestnut Grove Union Cemetery (The Cemetery) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Cemetery provides burial grounds and burial services to the public. The Cemetery is a jointly governed organization between the City of Olmsted Falls and Olmsted Township.

A joint council consisting of the council members of Olmsted Falls and the Trustees of Olmsted Township governs the Cemetery. The joint council elects and appoints the members of the Board of Trustees. The members of the Board of Trustees consist of the following: one elected member of the legislative body from each of the political subdivisions and one appointed resident from either of the political subdivisions who is not a member of the legislative body. The joint council exercises control over the operation of the Cemetery through budgeting, appropriating and contracting. The Board of Trustees control daily operations of the Cemetery. During 2015, the City contributed \$34,863 to the Chestnut Grove Union Cemetery.

City of Olmsted Falls, Ohio

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

Note 14: Jointly Governed Organizations (continued)

C. Joint Economic Development District

The City of Olmsted Falls and Olmsted Township, in an effort to promote growth and economic development, and in accordance with state law, entered into a contract to create the Olmsted Joint Economic Development District (JEDD). The legislative authorities of the City and Township each authorized and directed authorization to enter into a contract for the JEDD. The JEDD was incorporated on September 7, 2001 and JEDD activities initiated December 15, 2001.

A Board of Directors governs the JEDD. The Board is composed of the following members: (a) one member representing the City, appointed by the Mayor and approved by the City Council; (b) one member representing the Township, appointed by the Township Trustees; and (c) one member selected by the two members listed. The Board exercises control over the operation of JEDD through budgeting, appropriations, contracting and designating management. The control by the city and township is limited to the representation on the board. During 2015, no contributions were made by the City.

D. Southwest Council of Governments

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The Council's Board is comprised of one member from each of the nineteen participating entities. The Board exercises total control over the operation of the Council, which includes budgeting, appropriating, contracting, and designating management. The Board adopts an annual budget. Each City's degree of control is limited to its representation on the Board.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("HAZMAT"), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT team. During 2015, no contributions were made by the City. The Council's financial reports may be obtained by contacting Dana Kavender, Secretary-Treasurer, 11 Berea Commons, Berea, Ohio 44017.

E. Southwest General Health Center

The Southwest General Health Center is an Ohio non-profit corporation providing health services among the communities of Berea, Brook Park, Columbia Township, Middleburg Heights, Olmsted Falls and Strongsville.

The Health Center is governed by a Board of Trustees comprised of the following: one member of the legislative body from each of the member political subdivisions, one resident from each of the member political subdivisions who is not a member of the legislative body, three persons who are residents of any of the member political subdivisions, the president and the vice president of the corporations, and the president and the vice president of the medical staff. The legislative body of each political subdivision elects their own member to serve on the Board of Trustees of the Health Center.

City of Olmsted Falls, Ohio

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

Note 14: Jointly Governed Organizations (continued)

E. Southwest General Health Center (continued)

The Board exercises total control over the operations of the Health Center, including budgeting, appropriating, contracting and designating management. Each City's control is limited to its representation on the Board. During 2015, the City contributed \$44,344 to the Health Center.

Note 15: Defined Benefit Pension Plans

A. Net Pension Liability

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

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

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

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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 Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (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
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

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

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

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

	State and Local	Public Safety	Law Enforcement
2015 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
 2015 Actual Contribution Rates			
Employer:			
Pension	12.0 %	16.1 %	16.1 %
Post-employment Health Care Benefits	2.0	2.0	2.0
Total Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	12.0 %	13.0 %

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$154,285 for 2015. Of this amount, \$15,011 is reported as an intergovernmental payable.

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

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

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 July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

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

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

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

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

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

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$264,728 for 2015. Of this amount, \$25,848 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

D. Pension Liabilities, Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Proportionate Share of the Net Pension Liability/(Asset)	\$1,352,050	(\$6,543)	\$1,669,974	\$ 1,603,852	\$4,619,333
Proportion of the Net Pension Liability/Asset	0.011210%	0.016994%	0.0322363%	0.0309599%	
Pension Expense	147,617	4,349	162,847	157,360	472,173

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

	OPERS	OP&F Police	OP&F Fire	Total
Deferred Outflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$72,540	\$71,974	\$69,125	\$213,639
City contributions subsequent to the measurement date	154,285	128,096	136,632	419,013
Total Deferred Outflows of Resources	<u>\$226,825</u>	<u>\$200,070</u>	<u>\$205,757</u>	<u>\$632,652</u>
Deferred Inflows of Resources				
Differences between expected and actual experience	<u>\$25,750</u>	<u>\$0</u>	<u>\$0</u>	<u>\$25,750</u>

\$419,013 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

D. Pension Liabilities, Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (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 Police	OP&F Fire	Total
2016	\$6,938	\$17,994	\$17,281	\$42,213
2017	6,938	17,994	17,281	\$42,213
2018	16,064	17,994	17,281	\$51,339
2019	17,898	17,992	17,282	\$53,172
2020	(237)	0	0	(237)
Thereafter	(811)	0	0	(811)
Total	\$46,790	\$71,974	\$69,125	\$187,889

E. Actuarial Assumptions - OPERS

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

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The total pension asset in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 8.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

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

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

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

City's proportionate share of the net pension liability/(asset)	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Traditional Pension Plan	\$2,487,387	\$1,352,050	\$395,825
Combined Plan	\$850	(\$6,543)	(\$12,406)

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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, 2014 are summarized below:

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

* levered 2x

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

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

City of Olmsted Falls, Ohio

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

Note 15: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 4,528,198	\$ 3,273,826	\$2,211,756

Note 16: Postemployment Benefit Plans

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (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 that has elements of both a defined benefit and a defined contribution plan.

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

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten 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 No. 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

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

City of Olmsted Falls, Ohio

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

Note 16: Postemployment Benefit Plans (continued)

A. Ohio Public Employees Retirement System (continued)

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined Plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2015. As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.00 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA participants in the Member-Directed Plan for 2015 was 4.50 percent. The City's actual employer contributions for December 31, 2015, 2014 and 2013 which were used to fund post-employment benefits were \$26,034, \$26,221, and \$13,664, respectively; 100 percent has been contributed for 2015, 2014 and 2013.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or 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 GASB Statement No. 45.

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

City of Olmsted Falls, Ohio

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

Note 16: Postemployment Benefit Plans (continued)

B. Ohio Police and Fire Pension Fund (continued)

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

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the 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, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 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. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2015 thru December 31, 2015. 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 the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$3,386 and \$2,892 for the year ended December 31, 2015, \$3,541 and \$2,763 for the year ended December 31, 2014, and \$26,699 and \$19,239 for the year ended December 31, 2013, respectively. The full amount has been contributed for 2015, 2014 and 2013.

City of Olmsted Falls, Ohio

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

Note 17: Contingencies

A. Grants

The City received financial assistance from 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 may be 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 adverse effect on the overall financial position of the City at December 31, 2015.

B. Litigation

The City of Olmsted Falls is a party to legal proceedings seeking damages. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 18: Budgetary Basis of Accounting

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

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

City of Olmsted Falls, Ohio

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

Note 18: Budgetary Basis of Accounting (continued)

The following tables summarize the adjustments necessary to reconcile the budget basis statement to the GAAP basis statement for the general fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$ (99,802)
Increase (Decrease) Due to:	
Revenue Accruals	11,616
Expenditure Accruals	(516,470)
Net Impact of Encumbrances	<u>(91,592)</u>
Budgetary Basis	<u>\$ (696,248)</u>

City of Olmsted Falls, Ohio

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

Traditional Plan	2014	2013
City's Proportion of the Net Pension Liability	0.011210%	0.011210%
City's Proportionate Share of the Net Pension Liability	\$1,352,050	\$1,321,513
City's Covered-Employee Payroll	\$1,378,900	\$1,358,260
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	98.05%	97.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%
Combined Plan	2014	2013
City's Proportion of the Net Pension (Asset)	0.016994%	0.016994%
City's Proportionate Share of the Net Pension (Asset)	(\$6,543)	(\$1,783)
City's Covered-Employee Payroll	\$62,592	\$4,500
City's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered Employee Payroll	10.45%	39.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.83%	104.33%

(1) Information prior to 2013 is not available.

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

City of Olmsted Falls, Ohio

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

Police	2014	2013
City's Proportion of the Net Pension Liability	0.0322363%	0.0322363%
City's Proportionate Share of the Net Pension Liability	\$1,669,974	\$1,570,009
City's Covered-Employee Payroll	\$709,768	\$690,922
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	235.28%	227.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%
Fire	2014	2013
City's Proportion of the Net Pension Liability	0.0309599%	0.0309599%
City's Proportionate Share of the Net Pension Liability	\$1,603,852	\$1,507,844
City's Covered-Employee Payroll	\$555,221	\$545,106
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	288.87%	276.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

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

City of Olmsted Falls, Ohio

Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System
Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions</u>			
Traditional Plan	\$147,704	\$165,468	\$176,574
Combined Plan	<u>\$6,581</u>	<u>\$7,511</u>	<u>585</u>
Total Required Contributions	\$154,285	\$172,979	\$177,159
Contributions in Relation to the Contractually Required Contribution	<u>(\$154,285)</u>	<u>(\$172,979)</u>	<u>(\$177,159)</u>
Contribution Deficiency / (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
City's Covered-Employee Payroll			
Traditional Plan	\$1,230,867	\$1,378,900	\$1,358,260
Combined Plan	\$54,842	\$62,592	\$4,500
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>			
Traditional Plan	12.00%	12.00%	13.00%
Combined Plan	12.00%	12.00%	13.00%

(1) – Information prior to 2013 is not available.

City of Olmsted Falls, Ohio

Required Supplementary Information Schedule of City Contributions Ohio Police and Fire Pension Fund Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>Contractually Required Contributions</u>										
Police	\$128,096	\$134,856	\$108,682	\$87,667	\$86,708	\$91,523	\$83,441	\$82,207	\$77,938	\$72,369
Fire	\$136,632	\$130,477	\$110,275	\$90,261	\$87,372	\$89,438	\$88,099	\$87,586	\$84,904	\$75,098
Total Required Contributions	\$264,728	\$265,333	\$218,957	\$177,928	\$174,080	\$180,961	\$171,540	\$169,793	\$162,842	\$147,467
Contributions in Relation to the Contractually Required Contribution	(\$264,728)	(\$265,333)	(\$218,957)	(\$177,928)	(\$174,080)	(\$180,961)	(\$171,540)	(\$169,793)	(\$162,842)	(\$147,467)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
City's Covered-Employee Payroll										
Police	\$674,189	\$709,768	\$690,922	\$687,584	\$680,063	\$717,827	\$654,439	\$644,761	\$611,278	\$615,906
Fire	\$581,413	\$555,221	\$545,106	\$523,252	\$506,504	\$518,481	\$510,719	\$507,745	\$492,197	\$462,142
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>										
Police	19.00%	19.00%	[2]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	11.75%
Fire	23.50%	23.50%	[2]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	16.25%

[2] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

JAMES G. ZUPKA, C.P.A., INC.

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of City Council
City of Olmsted Falls
Olmsted Falls, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 17, 2016, wherein we noted that the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and restated its net position at December 31, 2014 for governmental activities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Olmsted Falls, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Olmsted Falls, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Olmsted Falls, Ohio's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City of Olmsted Falls, Ohio's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Olmsted Falls, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Olmsted Falls, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Olmsted Falls, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

August 17, 2016

**CITY OF OLMSTED FALLS
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF PRIOR FINDINGS AND RESPONSES
 FOR THE YEAR ENDED DECEMBER 31, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significant Different Corrective Action Taken; or Finding No Longer Valid; Explain
2014-001	Payroll	No	Partially corrected; repeated as a management letter recommendation in 2015.

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

CITY OF OLMSTED FALLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2016**