



**bhm cpa group, inc.**  
CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF EATON  
PREBLE COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2016  
Fiscal Year Audited Under GAGAS: 2016

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# Dave Yost • Auditor of State

City Council  
City of Eaton  
328 North Maple Street  
Eaton, Ohio 45320

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

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

July 27, 2017

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**CITY OF EATON**  
**PREBLE COUNTY, OHIO**  
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**For the Year Ended December 31, 2016**

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## **Independent Auditor's Report**

City of Eaton  
Preble County  
328 North Maple Street  
Eaton, Ohio 45320

To the City Council:

### ***Report on the Financial Statements***

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Eaton, Preble County, Ohio, as of December 31, 2016, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Public Safety Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

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



BHM CPA Group, Inc.  
Piketon, Ohio  
June 9, 2017



## **CITY OF EATON, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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This discussion and analysis of the City of Eaton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2016 are as follows:

- ❑ In total, net position increased \$504,590. Net position of governmental activities increased \$268,770, which represents a 2% change from 2015. Net position of business-type activities increased \$235,820 or 3% from 2015.
- ❑ General revenues accounted for \$5,623,885 in revenue or 48% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,159,007, or 52% of total revenues of \$11,782,892.
- ❑ The City had \$7,892,827 in expenses related to governmental activities; only \$2,537,712 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$5,623,885 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$2,891,649 in revenues and \$1,676,313 in expenditures. The general fund's fund balance increased from a balance of \$1,678,875 to \$1,829,211.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

# CITY OF EATON, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2016*

*Unaudited*

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## **Government-wide Statements**

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

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

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

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

- *Governmental Activities* – Most of the City's program's and services are reported here including public safety, public health, culture and recreation, community development, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer, refuse and parking services are reported as business-type activities.

## **Fund Financial Statements**

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

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

## CITY OF EATON, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Unaudited**

*Proprietary Funds* – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the Water, Sewer, Refuse and Parking funds.

*Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities.

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net position for 2016 compared to 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$9,270,690	\$10,481,673	\$4,384,962	\$3,817,123	\$13,655,652	\$14,298,796
Capital Assets, Net	14,065,955	12,630,795	8,717,766	9,276,488	22,783,721	21,907,283
Total Assets	<u>23,336,645</u>	<u>23,112,468</u>	<u>13,102,728</u>	<u>13,093,611</u>	<u>36,439,373</u>	<u>36,206,079</u>
Deferred Outflows of Resources	2,044,362	698,501	375,783	117,804	2,420,145	816,305
Net Pension Liability	6,294,112	4,580,235	984,312	689,589	7,278,424	5,269,824
Long-term Liabilities	1,073,997	1,299,978	2,964,823	3,194,305	4,038,820	4,494,283
Other Liabilities	218,053	434,082	166,593	207,406	384,646	641,488
Total Liabilities	<u>7,586,162</u>	<u>6,314,295</u>	<u>4,115,728</u>	<u>4,091,300</u>	<u>11,701,890</u>	<u>10,405,595</u>
Deferred Inflows of Resources	560,489	531,088	19,018	12,170	579,507	543,258
Net Position						
Net Investment in Capital Assets	13,612,813	11,969,277	5,920,665	6,275,164	19,533,478	18,244,441
Restricted	6,125,320	7,069,703	0	0	6,125,320	7,069,703
Unrestricted	(2,503,777)	(2,073,394)	3,423,100	2,832,781	919,323	759,387
Total Net Position	<u>\$17,234,356</u>	<u>\$16,965,586</u>	<u>\$9,343,765</u>	<u>\$9,107,945</u>	<u>\$26,578,121</u>	<u>\$26,073,531</u>

The adoption of GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," significantly revised 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 EATON, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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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.

## CITY OF EATON, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2016

*Unaudited*

Change in Net Position – The following table shows the change in net position for 2016 compared to 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services and Sales	\$1,438,940	\$1,623,121	\$3,573,675	\$3,480,107	\$5,012,615	\$5,103,228
Operating Grants and Contributions	942,404	514,539	0	0	942,404	514,539
Capital Grants and Contributions	156,368	1,802,598	47,620	0	203,988	1,802,598
Total Program Revenues	<u>2,537,712</u>	<u>3,940,258</u>	<u>3,621,295</u>	<u>3,480,107</u>	<u>6,159,007</u>	<u>7,420,365</u>
General Revenues						
Property Taxes	548,986	675,036	0	0	548,986	675,036
Municipal Income Taxes	4,650,397	5,150,578	0	0	4,650,397	5,150,578
Intergovernmental Revenues, Unrestricted	202,235	218,536	0	0	202,235	218,536
Investment Earnings	23,385	8,001	0	0	23,385	8,001
Miscellaneous	198,882	165,138	0	0	198,882	165,138
Total General Revenues	<u>5,623,885</u>	<u>6,217,289</u>	<u>0</u>	<u>0</u>	<u>5,623,885</u>	<u>6,217,289</u>
Total Revenues	<u>8,161,597</u>	<u>10,157,547</u>	<u>3,621,295</u>	<u>3,480,107</u>	<u>11,782,892</u>	<u>13,637,654</u>
Program Expenses						
General Government	2,230,863	1,785,638	0	0	2,230,863	1,785,638
Public Safety	3,562,827	3,325,723	0	0	3,562,827	3,325,723
Public Health	144,642	145,054	0	0	144,642	145,054
Transportation	1,348,592	1,387,601	0	0	1,348,592	1,387,601
Community Development	243,693	204,355	0	0	243,693	204,355
Culture and Recreation	351,285	357,824	0	0	351,285	357,824
Interest and Fiscal Charges	10,925	16,254	0	0	10,925	16,254
Water	0	0	1,337,403	1,389,222	1,337,403	1,389,222
Sewer	0	0	1,265,709	1,203,260	1,265,709	1,203,260
Refuse	0	0	775,657	728,029	775,657	728,029
Parking	0	0	6,706	0	6,706	0
Total Expenses	<u>7,892,827</u>	<u>7,222,449</u>	<u>3,385,475</u>	<u>3,320,511</u>	<u>11,278,302</u>	<u>10,542,960</u>
Total Change in Net Position	268,770	2,935,098	235,820	159,596	504,590	3,094,694
Beginning Net Position	<u>16,965,586</u>	<u>14,030,488</u>	<u>9,107,945</u>	<u>8,948,349</u>	<u>26,073,531</u>	<u>22,978,837</u>
Ending Net Position	<u>\$17,234,356</u>	<u>\$16,965,586</u>	<u>\$9,343,765</u>	<u>\$9,107,945</u>	<u>\$26,578,121</u>	<u>\$26,073,531</u>

### Governmental Activities

Net position of the City's governmental activities increased \$268,770. This represents a 2% change from 2015.

A decrease in charges for services can be attributed to a decrease in EMS service revenue. The opening of a local emergency center has resulted in a decrease in demand for City EMS services. An increase in operating grants and contributions as well as general government expense can be attributed to an increase in Home Investment Partnership Program grants. A \$1.8 million donation for the construction of a new community pool received in the prior year resulted in a subsequent decrease in capital grants in 2016.

## CITY OF EATON, OHIO

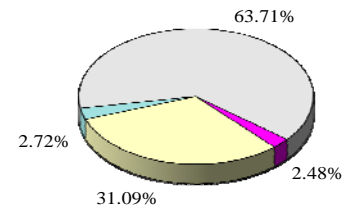
**Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Unaudited**

The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City.

Income taxes and property taxes made up 57% and 7% respectively of revenues for governmental activities in 2016. The City's reliance upon tax revenues is demonstrated by the following graph indicating 64% of total revenues from general tax revenues:

Revenue Sources	2016	Percent of Total
General Tax Revenues	\$5,199,383	63.71%
Intergovernmental, Unrestricted	202,235	2.48%
Program Revenues	2,537,712	31.09%
General Other	222,267	2.72%
Total Revenue	<u>\$8,161,597</u>	<u>100.00%</u>



### **Business-Type Activities**

Net position of the business-type activities increased \$235,820. Revenues and expenses were consistent with the previous year.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$7,882,872, which is a decrease from last year's balance of \$8,189,380. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2016 and 2015:

	Fund Balance December 31, 2016	Fund Balance December 31, 2015	Increase (Decrease)
General	\$1,829,211	\$1,678,875	\$150,336
Public Safety	662,768	509,195	153,573
Pool Capital Improvement	0	1,389,204	(1,389,204)
Capital Improvement	3,977,358	3,367,989	609,369
Nonmajor Governmental	1,413,535	1,244,117	169,418
Total	<u>\$7,882,872</u>	<u>\$8,189,380</u>	<u>(\$306,508)</u>

## **CITY OF EATON, OHIO**

***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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

	2016 <u>Revenues</u>	2015 <u>Revenues</u>	Increase <u>(Decrease)</u>
Property Taxes	\$489,418	\$483,243	\$6,175
Municipal Income Taxes	1,412,066	1,155,787	256,279
Intergovernmental Revenue	199,227	221,850	(22,623)
Charges for Services	93,483	86,122	7,361
Licenses and Permits	69,293	122,165	(52,872)
Fees, Fines and Forfeitures	496,244	499,935	(3,691)
Investment Income	23,279	7,931	15,348
All Other Revenue	108,639	109,337	(698)
<b>Total</b>	<b><u>\$2,891,649</u></b>	<b><u>\$2,686,370</u></b>	<b><u>\$205,279</u></b>

General Fund revenues increased approximately 8% from the prior year. An increase in income taxes can be attributed to business net profit taxes, while a decrease in licenses and permits can be attributed to a decline in building permits in comparison to the prior year.

	2016 <u>Expenditures</u>	2015 <u>Expenditures</u>	Increase <u>(Decrease)</u>
General Government	\$1,218,689	\$1,259,994	(\$41,305)
Public Health	17,991	20,933	(2,942)
Transportation	100,026	98,319	1,707
Community Development	205,270	204,504	766
Culture and Recreation	134,337	97,946	36,391
<b>Total</b>	<b><u>\$1,676,313</u></b>	<b><u>\$1,681,696</u></b>	<b><u>(\$5,383)</u></b>

General Fund expenditures remained stable, decreasing \$5,383, or less than 1% from the prior year.

*Public Safety Fund* – The Public Safety Fund reported an increase in fund balance of \$153,573, or 30%. Income tax revenue increased due to an increase in business net profit taxes.

*Pool Capital Improvement Fund* – The City's Pool Capital Improvement Fund reported \$1.5 million in expenditures for construction of a new community pool.

*Capital Improvement Fund* – The City's Capital Improvement Fund balance increased 18%. Income tax revenue increased due to an increase in business net profit taxes. Repaving of several City streets, including US Route 127 in the prior year resulted in the subsequent decrease in capital expenditures in the current year.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

## **CITY OF EATON, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2016**

**Unaudited**

During 2016, the City amended its General Fund budget several times to reflect changing circumstances.

Original budgeted and final budgeted revenues were not significantly different. Actual budget basis revenues were 16% higher than final budget estimates.

Final budgeted appropriations were 13% less than original budgeted appropriations due to a decrease in amounts appropriated for transfer to the Public Safety Fund. Final budgeted appropriations exceeded actual expenditures by 10%. This was mainly the result of controlling expenditures across all general fund departments.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of 2016 the City had \$22,783,721 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, and furniture and equipment. Of this total, \$14,065,955 was related to governmental activities and \$8,717,766 to the business-type activities. The following tables show 2016 and 2015 balances:

	Governmental Activities		Increase (Decrease)
	2016	2015	
Land	\$820,439	\$820,439	\$0
Construction In Progress	0	460,796	(460,796)
Buildings and Improvements	6,088,025	4,084,490	2,003,535
Infrastructure	9,456,018	9,203,904	252,114
Furniture and Equipment	6,780,187	6,531,947	248,240
Less: Accumulated Depreciation	(9,078,714)	(8,470,781)	(607,933)
Totals	\$14,065,955	\$12,630,795	\$1,435,160

	Business-Type Activities		Increase (Decrease)
	2016	2015	
Land	\$582,108	\$582,108	\$0
Construction in Progress	18,323	0	18,323
Buildings and Systems	15,789,155	15,856,007	(66,852)
Furniture and Equipment	4,741,504	4,688,651	52,853
Less: Accumulated Depreciation	(12,413,324)	(11,850,278)	(563,046)
Totals	\$8,717,766	\$9,276,488	(\$558,722)

The increase in buildings and improvements in Governmental Activities capital assets can be attributed to the construction of a new community pool. Repaving of several City streets as well as the rehabilitation of the St. Clair Street bridge resulted in the increase in infrastructure. Equipment additions included purchases in the police, fire, ems, and maintenance departments. The increase in equipment in Business-Type capital assets can be attributed to equipment purchases in the water and sewer departments. Additional information on the City's capital assets can be found in Note 11.



## **CITY OF EATON, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2016***

***Unaudited***

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### ***Debt***

The following table summarizes the City's debt outstanding as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Governmental Activities:		
General Obligation Bond	\$184,392	\$300,268
Ohio Public Works Commission Loans	268,750	361,250
Net Pension Liability	6,294,112	4,580,235
Compensated Absences	620,855	638,460
Total Governmental Activities	<u>7,368,109</u>	<u>5,880,213</u>
Business-Type Activities:		
Ohio Water Development Authority Loan	2,797,101	3,001,324
Net Pension Liability	984,312	689,589
Compensated Absences	167,722	192,981
Total Business-Type Activities	<u>3,949,135</u>	<u>3,883,894</u>
Totals	<u><u>\$11,317,244</u></u>	<u><u>\$9,764,107</u></u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2016, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 15.

### **CONTACTING THE CITY'S FINANCE DEPARTMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have any questions regarding this report or need additional information, contact Stephanie Hurd, Director of Finance, City of Eaton, 328 North Maple Street, P.O. Box 27, Eaton, Ohio 45320.

**CITY OF EATON, OHIO**

**Statement of Net Position**  
**December 31, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Pooled Cash and Investments	\$ 6,982,962	\$ 3,823,420	\$ 10,806,382
Investments	20,000	0	20,000
Receivables:			
Taxes	1,871,668	0	1,871,668
Accounts	21,446	560,322	581,768
Interest	16	0	16
Intergovernmental Receivable	370,707	1,220	371,927
Special Assessments	3,891	0	3,891
Non-Depreciable Capital Assets	820,439	600,431	1,420,870
Depreciable Capital Assets, Net	13,245,516	8,117,335	21,362,851
<b>Total Assets</b>	<b>23,336,645</b>	<b>13,102,728</b>	<b>36,439,373</b>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	1,105,405	375,783	1,481,188
OP&F	938,957	0	938,957
<b>Total Deferred Outflows of Resources</b>	<b>2,044,362</b>	<b>375,783</b>	<b>2,420,145</b>
<b>Liabilities:</b>			
Accounts Payable	155,198	118,794	273,992
Accrued Wages and Benefits	29,466	9,339	38,805
Intergovernmental Payable	30,508	0	30,508
Accrued Interest Payable	2,881	38,460	41,341
Noncurrent Liabilities:			
Due Within One Year	405,633	271,167	676,800
Due in More Than One Year:			
Net Pension Liability	6,294,112	984,312	7,278,424
Other Amounts Due in More Than One Year	668,364	2,693,656	3,362,020
<b>Total Liabilities</b>	<b>7,586,162</b>	<b>4,115,728</b>	<b>11,701,890</b>
<b>Deferred Inflows of Resources:</b>			
Property Tax Levy for Next Fiscal Year	495,000	0	495,000
Pension:			
OPERS	55,946	19,018	74,964
OP&F	9,543	0	9,543
<b>Total Deferred Inflows of Resources</b>	<b>560,489</b>	<b>19,018</b>	<b>579,507</b>

**CITY OF EATON, OHIO**

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	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	13,612,813	5,920,665	19,533,478
Restricted For:			
Capital Improvement	4,468,947	0	4,468,947
Public Safety	624,319	0	624,319
Parks	40,728	0	40,728
Cemetery	71,985	0	71,985
Community Development	81,539	0	81,539
Indigent Driver	99,997	0	99,997
Computerization Upgrade	10,831	0	10,831
Special Projects	58,357	0	58,357
Streets and Highways	648,349	0	648,349
Perpetual Care:			
Expendable	10,268	0	10,268
Nonexpendable	10,000	0	10,000
Unrestricted (Deficit)	(2,503,777)	3,423,100	919,323
<b>Total Net Position</b>	<u>\$ 17,234,356</u>	<u>\$ 9,343,765</u>	<u>\$ 26,578,121</u>

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

**Statement of Activities  
For the Year Ended December 31, 2016**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$ 2,230,863	\$ 850,187	\$ 0	\$ 0
Public Safety	3,562,827	454,905	3,080	0
Public Health	144,642	78,679	0	0
Transportation	1,348,592	19,264	513,749	0
Community Development	243,693	4,283	425,575	0
Culture and Recreation	351,285	31,622	0	156,368
Interest and Fiscal Charges	10,925	0	0	0
<b>Total Governmental Activities</b>	<b>7,892,827</b>	<b>1,438,940</b>	<b>942,404</b>	<b>156,368</b>
<b>Business-Type Activities:</b>				
Water	1,337,403	1,471,248	0	0
Sewer	1,265,709	1,316,991	0	47,620
Refuse	775,657	784,161	0	0
Parking	6,706	1,275	0	0
<b>Total Business-Type Activities</b>	<b>3,385,475</b>	<b>3,573,675</b>	<b>0</b>	<b>47,620</b>
<b>Totals</b>	<b>\$ 11,278,302</b>	<b>\$ 5,012,615</b>	<b>\$ 942,404</b>	<b>\$ 203,988</b>

**General Revenues**

Property Taxes Levied for:  
 General Purposes  
 Cemetery  
 Capital Projects  
 Municipal Income Taxes  
 Intergovernmental, Unrestricted  
 Investment Earnings  
 Miscellaneous  
 Total General Revenues

Change in Net Position

Net Position Beginning of Year  
 Net Position End of Year

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

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Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,380,676)	\$ 0	\$ (1,380,676)
(3,104,842)	0	(3,104,842)
(65,963)	0	(65,963)
(815,579)	0	(815,579)
186,165	0	186,165
(163,295)	0	(163,295)
(10,925)	0	(10,925)
<u>(5,355,115)</u>	<u>0</u>	<u>(5,355,115)</u>
0	133,845	133,845
0	98,902	98,902
0	8,504	8,504
0	(5,431)	(5,431)
<u>0</u>	<u>235,820</u>	<u>235,820</u>
\$ (5,355,115)	\$ 235,820	\$ (5,119,295)
489,462	0	489,462
36,867	0	36,867
22,657	0	22,657
4,650,397	0	4,650,397
202,235	0	202,235
23,385	0	23,385
198,882	0	198,882
<u>5,623,885</u>	<u>0</u>	<u>5,623,885</u>
268,770	235,820	504,590
<u>16,965,586</u>	<u>9,107,945</u>	<u>26,073,531</u>
\$ <u>17,234,356</u>	\$ <u>9,343,765</u>	\$ <u>26,578,121</u>

**CITY OF EATON, OHIO**

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2016**

	General	Public Safety	Capital Improvement	Nonmajor Governmental Funds
<b>Assets:</b>				
Pooled Cash and Investments	\$ 1,658,141	\$ 380,134	\$ 3,632,307	\$ 1,312,380
Investments	0	0	0	20,000
Receivables:				
Taxes	841,014	454,410	545,292	30,952
Accounts	20,092	0	0	1,354
Interest	0	0	0	16
Intergovernmental	111,465	10,830	0	248,412
Special Assessments	0	0	3,891	0
Due from Other Funds	0	0	0	14,995
Interfund Loans Receivable	1,203	0	0	0
<b>Total Assets</b>	<b>\$ 2,631,915</b>	<b>\$ 845,374</b>	<b>\$ 4,181,490</b>	<b>\$ 1,628,109</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 88,930	\$ 24,171	\$ 30,179	\$ 11,918
Accrued Wages and Benefits Payable	11,949	9,378	4,189	3,950
Intergovernmental Payable	30,508	0	0	0
Due to Other Funds	14,995	0	0	0
Interfund Loans Payable	0	0	0	1,203
<b>Total Liabilities</b>	<b>146,382</b>	<b>33,549</b>	<b>34,368</b>	<b>17,071</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable Amounts	191,322	149,057	169,764	167,503
Property Tax Levy for Next Fiscal Year	465,000	0	0	30,000
<b>Total Deferred Inflows of Resources</b>	<b>656,322</b>	<b>149,057</b>	<b>169,764</b>	<b>197,503</b>
<b>Fund Balance:</b>				
Nonspendable	0	0	0	10,000
Restricted	59,903	662,768	3,977,358	1,404,738
Assigned	878,074	0	0	0
Unassigned	891,234	0	0	(1,203)
<b>Total Fund Balance</b>	<b>1,829,211</b>	<b>662,768</b>	<b>3,977,358</b>	<b>1,413,535</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 2,631,915</b>	<b>\$ 845,374</b>	<b>\$ 4,181,490</b>	<b>\$ 1,628,109</b>

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

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Total Governmental Funds	
\$	6,982,962
	20,000
	1,871,668
	21,446
	16
	370,707
	3,891
	14,995
	1,203
\$	9,286,888
\$	155,198
	29,466
	30,508
	14,995
	1,203
	231,370
	677,646
	495,000
	1,172,646
	10,000
	6,104,767
	878,074
	890,031
	7,882,872
\$	9,286,888

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**CITY OF EATON, OHIO**

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

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<b>Total Governmental Fund Balances</b>	\$	7,882,872
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		14,065,955
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		677,646
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	2,044,362	
Deferred Inflows - Pension	(65,489)	
Net Pension Liability	<u>(6,294,112)</u>	(4,315,239)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bond Payable	(184,392)	
OPWC Loan Payable	(268,750)	
Compensated Absences Payable	(620,855)	
Accrued Interest Payable	<u>(2,881)</u>	<u>(1,076,878)</u>
<b><i>Net Position of Governmental Activities</i></b>	<b>\$</b>	<b><u>17,234,356</u></b>

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

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

	General	Public Safety	Pool Capital Improvement	Capital Improvement
<b>Revenues:</b>				
Property Taxes	\$ 489,418	\$ 0	\$ 0	\$ 0
Municipal Income Taxes	1,412,066	1,769,744	0	2,121,208
Intergovernmental Revenue	199,227	0	0	88,324
Charges for Services	93,483	452,657	0	0
Licenses and Permits	69,293	0	0	0
Fees, Fines and Forfeitures	496,244	0	0	0
Special Assessments	0	0	0	18,802
Investment Income	23,279	0	0	0
Donations	0	0	68,044	0
All Other Revenue	108,639	26,551	0	15,092
<b>Total Revenues</b>	<u>2,891,649</u>	<u>2,248,952</u>	<u>68,044</u>	<u>2,243,426</u>
<b>Expenditures:</b>				
Current:				
General Government	1,218,689	54,869	0	253,689
Public Safety	0	3,057,455	0	202,539
Public Health	17,991	0	0	0
Transportation	100,026	0	0	399,728
Community Development	205,270	0	0	26,510
Culture and Recreation	134,337	0	1,457,248	222,148
Capital Outlay	0	0	0	441,603
Debt Service:				
Principal Retirement	0	0	0	92,500
Interest & Fiscal Charges	0	0	0	0
<b>Total Expenditures</b>	<u>1,676,313</u>	<u>3,112,324</u>	<u>1,457,248</u>	<u>1,638,717</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,215,336	(863,372)	(1,389,204)	604,709
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	0	16,945	0	4,660
Transfers In	0	1,000,000	0	0
Transfers Out	(1,065,000)	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>(1,065,000)</u>	<u>1,016,945</u>	<u>0</u>	<u>4,660</u>
Net Change in Fund Balance	150,336	153,573	(1,389,204)	609,369
<b>Fund Balance at Beginning of Year</b>	<u>1,678,875</u>	<u>509,195</u>	<u>1,389,204</u>	<u>3,367,989</u>
<b>Fund Balance End of Year</b>	<u>\$ 1,829,211</u>	<u>\$ 662,768</u>	<u>\$ 0</u>	<u>\$ 3,977,358</u>

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

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Nonmajor Governmental Funds	Total Governmental Funds
\$ 59,360	\$ 548,778
0	5,303,018
940,553	1,228,104
116,123	662,263
790	70,083
218,907	715,151
0	18,802
106	23,385
46,480	114,524
2,120	152,402
<u>1,384,439</u>	<u>8,836,510</u>
418,143	1,945,390
3,409	3,263,403
122,077	140,068
459,948	959,702
0	231,780
150,344	1,964,077
0	441,603
115,876	208,376
12,738	12,738
<u>1,282,535</u>	<u>9,167,137</u>
101,904	(330,627)
2,514	24,119
65,000	1,065,000
0	(1,065,000)
<u>67,514</u>	<u>24,119</u>
169,418	(306,508)
1,244,117	8,189,380
<u>\$ 1,413,535</u>	<u>\$ 7,882,872</u>

**CITY OF EATON, OHIO**

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

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**Net Change in Fund Balances - Total Governmental Funds** \$ (306,508)

***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	2,345,360	
Depreciation Expense	(904,800)	1,440,560

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(5,400)
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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.		(674,913)
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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.		487,527
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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.		(884,944)
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

General Obligation Bond Principal Retirement	115,876	
OPWC Loan Principal Retirement	92,500	
Accrued Interest Payable	1,813	210,189

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

Compensated Absences		2,259
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<b><i>Change in Net Position of Governmental Activities</i></b>		<b><u>\$ 268,770</u></b>
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See accompanying notes to the basic financial statements

**CITY OF EATON, 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, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 465,000	\$ 465,000	\$ 489,418	\$ 24,418
Municipal Income Taxes	1,066,000	1,066,000	1,326,931	260,931
Intergovernmental Revenue	172,400	172,400	199,420	27,020
Charges for Services	75,000	75,000	80,274	5,274
Licenses and Permits	69,000	69,000	69,293	293
Fees, Fines and Forfeitures	484,800	484,800	500,243	15,443
Investment Income	5,000	5,000	23,279	18,279
All Other Revenues	150,000	150,000	208,489	58,489
Total Revenues	<u>2,487,200</u>	<u>2,487,200</u>	<u>2,897,347</u>	<u>410,147</u>
<b>Expenditures:</b>				
Current:				
General Government	1,719,803	1,489,220	1,339,866	149,354
Public Health	23,093	19,996	17,991	2,005
Transportation	131,852	114,174	102,723	11,451
Community Development	265,842	230,200	207,113	23,087
Total Expenditures	<u>2,140,590</u>	<u>1,853,590</u>	<u>1,667,693</u>	<u>185,897</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	346,610	633,610	1,229,654	596,044
<b>Other Financing Sources (Uses):</b>				
Transfers Out	<u>(1,178,000)</u>	<u>(1,178,000)</u>	<u>(1,178,000)</u>	<u>0</u>
Total Other Financing Sources (Uses):	<u>(1,178,000)</u>	<u>(1,178,000)</u>	<u>(1,178,000)</u>	<u>0</u>
Net Change in Fund Balance	(831,390)	(544,390)	51,654	596,044
Fund Balance at Beginning of Year	1,387,077	1,387,077	1,387,077	0
Prior Year Encumbrances	<u>5,848</u>	<u>5,848</u>	<u>5,848</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 561,535</u>	<u>\$ 848,535</u>	<u>\$ 1,444,579</u>	<u>\$ 596,044</u>

See accompanying notes to the basic financial statements

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**CITY OF EATON, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Special Revenue Fund – Public Safety Fund  
For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Municipal Income Taxes	\$ 1,635,200	\$ 1,635,200	\$ 1,658,663	\$ 23,463
Charges for Services	436,756	436,756	442,140	5,384
All Other Revenues	0	0	26,551	26,551
Total Revenues	2,071,956	2,071,956	2,127,354	55,398
<b>Expenditures:</b>				
Current:				
General Government	49,546	49,546	49,105	441
Public Safety	3,402,016	3,402,016	3,120,064	281,952
Total Expenditures	3,451,562	3,451,562	3,169,169	282,393
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,379,606)	(1,379,606)	(1,041,815)	337,791
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	0	0	16,945	16,945
Transfers In	1,000,000	1,000,000	1,000,000	0
Total Other Financing Sources (Uses):	1,000,000	1,000,000	1,016,945	16,945
Net Change in Fund Balance	(379,606)	(379,606)	(24,870)	354,736
Fund Balance at Beginning of Year	367,130	367,130	367,130	0
Prior Year Encumbrances	16,362	16,362	16,362	0
Fund Balance at End of Year	\$ 3,886	\$ 3,886	\$ 358,622	\$ 354,736

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

**Statement of Net Position  
Proprietary Funds  
December 31, 2016**

	Business-Type Activities - Enterprise Funds		
	Major		
	Water	Sewer	Refuse
<b>Assets</b>			
Current Assets:			
Pooled Cash and Investments	\$ 1,544,803	\$ 2,090,279	\$ 181,927
Accounts Receivable	219,632	208,787	131,903
Intergovernmental Receivables	1,220	0	0
Total Current Assets	<u>1,765,655</u>	<u>2,299,066</u>	<u>313,830</u>
Noncurrent Assets:			
Capital Assets, Net	<u>5,619,382</u>	<u>3,079,047</u>	<u>19,337</u>
<b>Total Assets</b>	<u>7,385,037</u>	<u>5,378,113</u>	<u>333,167</u>
<b>Deferred Outflows of Resources:</b>			
Pension:			
OPERS	<u>166,530</u>	<u>176,656</u>	<u>30,965</u>
<b>Total Deferred Outflows of Resources</b>	<u>166,530</u>	<u>176,656</u>	<u>30,965</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	24,105	37,618	57,071
Accrued Wages and Benefits	4,100	4,272	837
Accrued Interest Payable	38,460	0	0
OWDA Loans Payable - Current	209,877	0	0
Compensated Absences - Current	27,606	29,647	4,037
Total Current Liabilities	<u>304,148</u>	<u>71,537</u>	<u>61,945</u>
Noncurrent Liabilities:			
OWDA Loans Payable	2,587,224	0	0
Compensated Absences Payable	45,951	49,590	10,891
Net Pension Liability	436,200	462,724	81,112
Total Noncurrent Liabilities	<u>3,069,375</u>	<u>512,314</u>	<u>92,003</u>
<b>Total Liabilities</b>	<u>3,373,523</u>	<u>583,851</u>	<u>153,948</u>
<b>Deferred Inflows of Resources:</b>			
Pension:			
OPERS	<u>8,428</u>	<u>8,941</u>	<u>1,567</u>
<b>Total Deferred Inflows of Resources</b>	<u>8,428</u>	<u>8,941</u>	<u>1,567</u>
<b>Net Position</b>			
Net Investment in Capital Assets	2,822,281	3,079,047	19,337
Unrestricted	<u>1,347,335</u>	<u>1,882,930</u>	<u>189,280</u>
<b>Total Net Position</b>	<u>\$ 4,169,616</u>	<u>\$ 4,961,977</u>	<u>\$ 208,617</u>

See accompanying notes to the basic financial statements



**CITY OF EATON, OHIO**

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<u>Nonmajor</u>	
<u>Parking</u>	<u>Total</u>
\$ 6,411	\$ 3,823,420
0	560,322
0	1,220
<u>6,411</u>	<u>4,384,962</u>
<u>0</u>	<u>8,717,766</u>
<u>6,411</u>	<u>13,102,728</u>
<u>1,632</u>	<u>375,783</u>
<u>1,632</u>	<u>375,783</u>
0	118,794
130	9,339
0	38,460
0	209,877
0	61,290
<u>130</u>	<u>437,760</u>
0	2,587,224
0	106,432
<u>4,276</u>	<u>984,312</u>
<u>4,276</u>	<u>3,677,968</u>
<u>4,406</u>	<u>4,115,728</u>
<u>82</u>	<u>19,018</u>
<u>82</u>	<u>19,018</u>
0	5,920,665
<u>3,555</u>	<u>3,423,100</u>
<u>\$ 3,555</u>	<u>\$ 9,343,765</u>

**CITY OF EATON, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2016**

	Business-Type Activities - Enterprise Funds		
	Major		
	Water	Sewer	Refuse
<b>Operating Revenues:</b>			
Charges for Services	\$ 1,465,777	\$ 1,316,991	\$ 784,161
Other Operating Revenues	5,471	0	0
<b>Total Operating Revenues</b>	<u>1,471,248</u>	<u>1,316,991</u>	<u>784,161</u>
<b>Operating Expenses:</b>			
Personal Services	326,028	346,575	59,473
Fringe Benefits	164,381	173,089	35,028
Contractual Services	162,938	227,781	678,658
Materials and Supplies	150,735	71,668	484
Utilities	79,946	181,532	1,617
Depreciation	370,160	265,064	397
Other Operating Expenses	4,881	0	0
<b>Total Operating Expenses</b>	<u>1,259,069</u>	<u>1,265,709</u>	<u>775,657</u>
<b>Operating Income (Loss)</b>	212,179	51,282	8,504
<b>Non-Operating Revenue (Expenses):</b>			
Interest and Fiscal Charges	(78,334)	0	0
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(78,334)</u>	<u>0</u>	<u>0</u>
<b>Income (Loss) Before Contributions</b>	133,845	51,282	8,504
<b>Contributions:</b>			
Capital Contributions	0	47,620	0
<b>Total Contributions</b>	<u>0</u>	<u>47,620</u>	<u>0</u>
<b>Change in Net Position</b>	133,845	98,902	8,504
Net Position Beginning of Year	4,035,771	4,863,075	200,113
<b>Net Position End of Year</b>	<u>\$ 4,169,616</u>	<u>\$ 4,961,977</u>	<u>\$ 208,617</u>

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

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<u>Nonmajor</u>		
<u>Parking</u>		<u>Total</u>
\$ 1,275		\$ 3,568,204
0		5,471
<u>1,275</u>		<u>3,573,675</u>
3,191		735,267
3,219		375,717
0		1,069,377
296		223,183
0		263,095
0		635,621
0		4,881
<u>6,706</u>		<u>3,307,141</u>
(5,431)		266,534
<u>0</u>		<u>(78,334)</u>
<u>0</u>		<u>(78,334)</u>
(5,431)		188,200
<u>0</u>		<u>47,620</u>
<u>0</u>		<u>47,620</u>
(5,431)		235,820
<u>8,986</u>		<u>9,107,945</u>
<u>\$ 3,555</u>		<u>\$ 9,343,765</u>

**CITY OF EATON, OHIO**

**Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2016**

	Business-Type Activities-Enterprise Funds		
	Major		
	Water	Sewer	Refuse
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,476,419	\$1,322,204	\$769,403
Cash Payments for Goods and Services	(435,055)	(488,652)	(677,355)
Cash Payments to Employees	(486,426)	(519,275)	(91,123)
Net Cash Provided (Used) by Operating Activities	<u>554,938</u>	<u>314,277</u>	<u>925</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Capital Grants	0	47,620	0
OWDA Loan Retirement	(204,223)	0	0
Interest and Fiscal Charges	(81,142)	0	0
Acquisition and Construction of Assets	(35,296)	(31,059)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(320,661)</u>	<u>16,561</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	234,277	330,838	925
Cash and Cash Equivalents at Beginning of Year	1,310,526	1,759,441	181,002
Cash and Cash Equivalents at End of Year	<u>\$1,544,803</u>	<u>\$2,090,279</u>	<u>\$181,927</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$212,179	\$51,282	\$8,504
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	370,160	265,064	397
Changes in Assets, Liabilities, and Deferred Outflows/Inflows:			
(Increase) Decrease in Accounts Receivable	5,151	5,213	(14,758)
Decrease in Intergovernmental Receivable	20	0	0
Increase in Deferred Outflows of Resources	(114,273)	(120,896)	(21,178)
Increase (Decrease) in Accounts Payable	(36,194)	(7,414)	3,405
Increase (Decrease) in Accrued Wages and Benefits	(3,812)	(4,080)	(584)
Decrease in Compensated Absences	(12,084)	(12,131)	(1,044)
Increase in Net Pension Liability	130,752	134,105	25,590
Increase in Deferred Inflows of Resources	3,039	3,134	593
Total Adjustments	<u>342,759</u>	<u>262,995</u>	<u>(7,579)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$554,938</u>	<u>\$314,277</u>	<u>\$925</u>

See accompanying notes to the basic financial statements

**CITY OF EATON, OHIO**

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<u>Nonmajor Parking</u>	<u>Totals</u>
\$1,325	\$3,569,351
(296)	(1,601,358)
<u>(3,554)</u>	<u>(1,100,378)</u>
<u>(2,525)</u>	<u>867,615</u>
0	47,620
0	(204,223)
0	(81,142)
<u>0</u>	<u>(66,355)</u>
<u>0</u>	<u>(304,100)</u>
(2,525)	563,515
8,936	3,259,905
<u>\$6,411</u>	<u>\$3,823,420</u>
(\$5,431)	\$266,534
0	635,621
50	(4,344)
0	20
(1,632)	(257,979)
0	(40,203)
130	(8,346)
0	(25,259)
4,276	294,723
82	6,848
<u>2,906</u>	<u>601,081</u>
<u>(\$2,525)</u>	<u>\$867,615</u>

**CITY OF EATON, OHIO**

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***Statement of Assets and Liabilities  
Fiduciary Funds  
December 31, 2016***

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	<u>Agency Funds</u>
<b>Assets:</b>	
Receivables:	
Intergovernmental	\$ 2,015
<b>Total Assets</b>	<u>2,015</u>
<b>Liabilities:</b>	
Accounts Payable	<u>2,015</u>
<b>Total Liabilities</b>	<u>\$ 2,015</u>

See accompanying notes to the basic financial statements

## **CITY OF EATON, OHIO**

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Eaton (the City) is a municipal corporation established under the laws of the State of Ohio, which operates under its own charter. The City was incorporated on July 1, 1961 and operates under a Council/Manager form of government. The council members are elected by separate ballot from the municipality at large for four-year terms. Council elects one of their members to serve as Mayor annually. As a council member, the Mayor has the right to vote on all issues before council. Council appoints the City Manager, Director of Finance and Director of Law. The City Manager appoints all department managers of the City.

The financial statements are presented as of December 31, 2016 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

#### **A. Reporting Entity**

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

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, departments, boards and agencies that are not legally separate from the City. For the City this includes public safety (police, fire and emergency rescue), highway and streets, parks and recreation, public improvements, community development, building and zoning, public health and welfare, and general administrative services. In addition, the City provides water treatment and distribution services, sanitary sewer services, refuse collection and disposal services and parking services, which are reported as enterprise funds. Council and the City Manager have direct responsibility for these activities.

## *CITY OF EATON, OHIO*

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting**

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

##### ***Governmental Funds***

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

The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred in accordance with the Charter and legislation of the City and/or the general laws of the State of Ohio.

Public Safety Fund – The public safety fund accounts for 1/2% income tax revenue that is approved by the voters of the City every three years and ambulance removal fees and contracts with townships for Fire and EMS services.

Pool Capital Improvement Fund – To account for a \$1,800,000 donation to the City to be used for construction of a new community pool.

Capital Improvement Fund – The capital improvement fund accounts for that portion of municipal income tax designated by Council for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operations of the City.

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## *CITY OF EATON, OHIO*

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting** (Continued)

###### *Proprietary Funds*

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets, liabilities and deferred outflows/inflows of resources associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

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

Water Fund – This fund is used to account for the provision of water treatment and distribution to the residents and commercial users of the City and some residents of the County.

Sewer Fund – This fund is used to account for sanitary sewer services provided to the residents and commercial users of the City.

Refuse Fund – This fund is used to account for the collection and disposal of refuse by the City.

*Fiduciary Funds* - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary funds are agency funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. This fund is used to account for receipts to be transferred to the County Law Library.

##### **C. Basis of Presentation – Financial Statements**

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

## **CITY OF EATON, OHIO**

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, deferred outflows/inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

## *CITY OF EATON, OHIO*

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **D. Basis of Accounting**

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

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

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

Property taxes measurable as of December 31, 2016 but which are not intended to finance 2016 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflows of resources. Property taxes are further described in Note 6.

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

## *CITY OF EATON, OHIO*

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process**

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

##### **1. Tax Budget**

The City Manager submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

##### **2. Estimated Resources**

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2016.

## *CITY OF EATON, OHIO*

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

##### **3. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—for the General Fund and Public Safety Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

##### **4. Lapsing of Appropriations**

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

##### **5. Encumbrances**

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

##### **6. Budgetary Basis of Accounting**

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

**CITY OF EATON, OHIO**

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process** (Continued)

**6. Budgetary Basis of Accounting** (Continued)

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

	Net Change in Fund Balance	
	General Fund	Public Safety Fund
GAAP Basis (as reported)	\$150,336	\$153,573
Increase (Decrease):		
Accrued Revenues at December 31, 2016 received during 2017	(316,249)	(316,183)
Accrued Revenues at December 31, 2015 received during 2016	231,094	205,102
Accrued Expenditures at December 31, 2016 paid during 2017	146,382	33,549
Accrued Expenditures at December 31, 2015 paid during 2016	(156,764)	(79,399)
Outstanding Encumbrances	(6,591)	(21,512)
Perspective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	3,446	0
Budget Basis	\$51,654	(\$24,870)

**F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and the State Treasury Asset Reserve (STAR Ohio). The amounts in STAR Ohio are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in STAR Ohio is considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."

## **CITY OF EATON, OHIO**

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **G. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements) which are reported at cost, which approximates fair value. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 5, "Cash, Cash Equivalents and Investments."

The City's investment in the State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the City. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value. For fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

##### **H. Capital Assets and Depreciation**

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

###### **1. Property, Plant and Equipment - Governmental Activities**

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

**CITY OF EATON, OHIO**

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Capital Assets and Depreciation (Continued)**

1. Property, Plant and Equipment - Governmental Activities (Continued)

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

2. Property, Plant and Equipment – Business Type Activities

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

3. Depreciation

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

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings and Systems	15 - 45
Infrastructure	20
Equipment	3 - 15



**CITY OF EATON, OHIO**

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Long-Term Obligations**

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

<u>Obligation</u>	<u>Fund</u>
Ohio Public Works Commission Loans Payable	Capital Improvement Fund
General Obligation Bond	Municipal Court Special Projects Fund
Compensated Absences	General Fund, Public Safety Fund, Street Construction, Maintenance and Repair Fund, Cemetery Fund, Recreation Fund, Fort St. Clair Fund, Capital Improvement Fund, Water Fund, Sewer Fund, Refuse Fund
Ohio Water Development Authority Loan Payable	Water Fund

**J. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the water, sewer, and refuse enterprise funds when earned, and the related liability is reported within the fund.

## *CITY OF EATON, OHIO*

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **K. Net Position**

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net position invested in capital assets, net of related debt 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

##### **L. Fund Balances**

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

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

*Restricted* – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority. For the City, these constraints consist of ordinances passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts. The City has no fund balances reported as committed at December 31, 2016.

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

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

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

## **CITY OF EATON, OHIO**

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **M. Pensions**

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

##### **N. Interfund Activity**

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

##### **O. Operating Revenues and Expenses**

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

##### **P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items to report during fiscal year 2016.

##### **Q. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. For the City, deferred outflows of resources are reported for pension amounts on the government-wide and proprietary funds statement of net position. See Note 12.

## **CITY OF EATON, OHIO**

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

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Q. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position. See Note 12.

##### **R. Fair Market Value**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

#### **NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE**

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” and GASB Statement No. 77 “Tax Abatement Disclosures.”

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

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**CITY OF EATON, OHIO**

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

**NOTE 3 – COMPLIANCE AND ACCOUNTABILITY**

The fund deficit at December 31, 2016 of \$1,203 in the Community Housing Improvement Fund (special revenue fund) arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. The general fund provides transfers when cash is required, not when accruals occur.

**NOTE 4 – FUND BALANCE CLASSIFICATION**

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

Fund Balances	General Fund	Public Safety Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Endowments	\$0	\$0	\$0	\$10,000	\$10,000
Total Nonspendable	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>
Restricted:					
Public Safety	0	662,768	0	170,769	833,537
Public Health	0	0	0	91,923	91,923
Transportation	0	0	0	528,034	528,034
Community Development	0	0	0	81,539	81,539
Culture and Recreation	59,903	0	0	56,425	116,328
Capital Outlay	0	0	3,977,358	417,691	4,395,049
Debt Service	0	0	0	58,357	58,357
Total Restricted	<u>59,903</u>	<u>662,768</u>	<u>3,977,358</u>	<u>1,404,738</u>	<u>6,104,767</u>
Assigned:					
Encumbrances	2,039	0	0	0	2,039
Budget Resource	876,035	0	0	0	876,035
Total Assigned	<u>878,074</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>878,074</u>
Unassigned:					
	891,234	0	0	(1,203)	890,031
Total Fund Balances	<u>\$1,829,211</u>	<u>\$662,768</u>	<u>\$3,977,358</u>	<u>\$1,413,535</u>	<u>\$7,882,872</u>

## ***CITY OF EATON, OHIO***

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

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

## **CITY OF EATON, OHIO**

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

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

##### **A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. At December 31, 2016, the carrying amount of the City's deposits was \$6,831,651 and the bank balance was \$6,970,148. Of the bank balance, \$1,020,403 was covered by federal depository insurance and \$5,949,745 was exposed to custodial risk and was collateralized with securities held by the pledging financial institutions trust department or agent but not in the City's name.

##### **B. Investments**

Pursuant to the City Charter, the City is authorized to invest funds, in compliance with the Ohio Revised Code, in bonds or notes guaranteed by the United States, bonds or obligations of the State of Ohio, the State Treasurer's investment pool or deposits in eligible institutions. Maturities must be less than two years.

Interest rate risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the City manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to approximately two years.

Credit Risk – Per the City's policy, investments are limited to those explicitly guaranteed by the U.S. government, to STAR Ohio (rated AAAM by Standard & Poor's), or to high yield cash investments with authorized banks which pledge pooled securities as collateral.

Concentration of credit risk – The City places no limit on the amount that it may invest with any one issuer.

At December 31, 2016, the City's investments were amounts on deposit with STAR Ohio, with a fair value of \$2,374,710, pooled certificates of deposit in the amount of \$1,600,021, and segregated certificates of deposit in the amount of \$20,000. The investments in STAR Ohio and pooled certificates of deposit are included in "Pooled Cash and Investments" and the segregated certificates of deposit are included in "Investments" on the Statement of Net Position.

## ***CITY OF EATON, OHIO***

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

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#### **NOTE 6 - TAXES**

##### **A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property located in the City. Real property taxes (other than public utility) collected during 2016 were levied after October 1, 2015 on assessed values as of January 1, 2015, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2011. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Eaton. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2016 was \$2.70 per \$1,000 of assessed value. The assessed value upon which the 2015 levy (collected in 2016) was based was \$148,499,870. This amount constitutes \$142,806,900 in real property assessed value and \$5,692,970 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .270% (2.70 mills) of assessed value.

##### **B. Income Tax**

Municipalities within the State of Ohio are permitted by state statute to levy an income tax up to a maximum rate of 1% subject to the approval of the local legislative body. Any rate in excess of 1% requires the approval of a majority of the eligible voters residing within the municipal corporation. The City income tax rate of 1.5% is levied by ordinance. One percent (1%) of the tax is levied indefinitely and 0.5% was renewed by the voters of the City in November 2016. The 0.5% tax will expire December 31, 2019. This tax is applicable to substantially all income earned within the City. Employers within the City are required to withhold income tax on employee compensation and remit this withholding quarterly. Corporations, partnerships, and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. Residents of the City are required to pay City income taxes on income they earn outside the City; however, credit is allowed for all income tax paid to other municipalities.



**CITY OF EATON, OHIO**

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

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**NOTE 7 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2016:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$1,065,000
Public Safety Fund	1,000,000	0
Nonmajor Governmental Funds	65,000	0
Totals	\$1,065,000	\$1,065,000

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

**NOTE 8 – TAX ABATEMENTS**

***Income Tax Abatement Program***

The City created the Municipal Job Creation Income Tax Incentive Program in 2016. The purpose of the program is to maintain the City’s competitiveness as a site for location of new businesses and the expansion of existing businesses. Pursuant to Ohio Revised Code 718 and the applicable City ordinance, the City provides an incentive to the company based upon the company’s gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business. The abatement is administered as a refund based upon the company’s payroll taxes. The tax abatement incentive is for a new business or expanding business with new payroll of a minimum of \$1,000,000 at the percentage up to 45% of income tax paid on new payroll for a period determined by the City in accordance with Ohio Revised Code. There is one (1) business with an active tax abatement agreement in place through 2021; however, in 2016, no income taxes were abated for said business.

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) For the year 2016 (In Actual Dollars)
<i>Income Tax Incentive</i>	
Sillex Corporation	\$0
	\$0

**CITY OF EATON, OHIO**

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

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**NOTE 9 – INTERFUND RECEIVABLES AND PAYABLES**

	Interfund Loans Receivable	Interfund Loans Payable	Due from Other Funds	Due to Other Funds
General Fund	\$1,203	\$0	\$0	\$14,995
Nonmajor Governmental Funds	0	1,203	14,995	0
Totals	<u>\$1,203</u>	<u>\$1,203</u>	<u>\$14,995</u>	<u>\$14,995</u>

The Interfund Loans Receivable/Payable was the result of money advanced from the General Fund to the Community Housing Improvement Fund to assist with cash flow.

Due from/to Other Funds at December 31, 2016 represent charges for services or reimbursable expenses approved and authorized in 2016 but not made until 2017. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. All are expected to be paid within one year.

**NOTE 10 - RECEIVABLES**

Receivables at December 31, 2016 consisted of current and delinquent property taxes, special assessments, accounts, intergovernmental grants, and interfund transactions. All receivables are considered collectible in full due to the ability to foreclose for nonpayment of taxes and the stable condition of State programs. A summary of Intergovernmental Receivables follows:

Type	Amount
<b>Governmental Activities:</b>	
Local Government Revenue Assistance	\$52,263
Homestead and Rollback	35,257
Gasoline and Excise Tax	143,295
Motor Vehicle License Fees	101,959
Public Safety	11,040
Community Housing Improvement	1,203
Other	25,690
Total Governmental Activities	<u>370,707</u>
<b>Business-Type Activities:</b>	
Water	1,220
Total Business-Type Activities	<u>1,220</u>
Totals	<u>\$371,927</u>

**CITY OF EATON, OHIO**

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

**NOTE 11 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2016:

*Historical Cost:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
<i>Capital assets not being depreciated:</i>				
Land	\$820,439	\$0	\$0	\$820,439
Construction in Progress	460,796	0	(460,796)	0
Sub-total	1,281,235	0	(460,796)	820,439
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	4,084,490	2,140,316	(136,781)	6,088,025
Infrastructure	9,203,904	252,114	0	9,456,018
Furniture and Equipment	6,531,947	413,726	(165,486)	6,780,187
Total Cost	<u>\$21,101,576</u>	<u>\$2,806,156</u>	<u>(\$763,063)</u>	<u>\$23,144,669</u>

*Accumulated Depreciation:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings and Improvements	(\$1,970,465)	(\$134,704)	\$131,381	(\$1,973,788)
Infrastructure	(2,155,853)	(353,594)	0	(2,509,447)
Furniture and Equipment	(4,344,463)	(416,502)	165,486	(4,595,479)
Total Accumulated Depreciation	<u>(\$8,470,781)</u>	<u>(\$904,800) *</u>	<u>\$296,867</u>	<u>(\$9,078,714)</u>
<i>Net Value:</i>	<u>\$12,630,795</u>			<u>\$14,065,955</u>

\* Depreciation expenses were charged to governmental functions as follows:

General Government	\$217,020
Public Safety	264,567
Public Health	207
Transportation	366,189
Culture and Recreation	56,817
Total Depreciation Expense	<u>\$904,800</u>

**CITY OF EATON, OHIO**

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

**NOTE 11 - CAPITAL ASSETS (Continued)**

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2016:

*Historical Cost:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
<i>Capital assets not being depreciated:</i>				
Land	\$582,108	\$0	\$0	\$582,108
Construction in Progress	0	18,323	0	18,323
Sub-total	<u>582,108</u>	<u>18,323</u>	<u>0</u>	<u>600,431</u>
<i>Capital assets being depreciated:</i>				
Buildings and Systems	15,856,007	5,723	(72,575)	15,789,155
Furniture and Equipment	4,688,651	52,853	0	4,741,504
Total Cost	<u>\$21,126,766</u>	<u>\$76,899</u>	<u>(\$72,575)</u>	<u>\$21,131,090</u>

*Accumulated Depreciation:*

Class	December 31, 2015	Additions	Deletions	December 31, 2016
Buildings and Systems	(\$8,097,195)	(\$437,443)	\$72,575	(\$8,462,063)
Furniture and Equipment	(3,753,083)	(198,178)	0	(3,951,261)
Total Accumulated Depreciation	<u>(\$11,850,278)</u>	<u>(\$635,621)</u>	<u>\$72,575</u>	<u>(\$12,413,324)</u>

*Net Value:*

	<u>\$9,276,488</u>			<u>\$8,717,766</u>
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## **CITY OF EATON, OHIO**

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

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#### **NOTE 12 – DEFINED BENEFIT PENSION PLANS**

##### ***Net Pension Liability***

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

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

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

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

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

##### ***Plan Description – Ohio Public Employees Retirement System (OPERS)***

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

**CITY OF EATON, OHIO**

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

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**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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**CITY OF EATON, OHIO**

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

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**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

	<u>State and Local</u>
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$340,781 for 2016. Of this amount, \$33,827 is reported as an intergovernmental payable.

## ***CITY OF EATON, OHIO***

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

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#### **NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

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

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



**CITY OF EATON, OHIO**

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

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**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

	<u>Police</u>	<u>Firefighters</u>
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %
<b>2016 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$233,204 for 2016. Of this amount, \$18,220 is reported as an intergovernmental payable.

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

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

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,879,764	\$3,398,660	\$7,278,424
Proportion of the Net Pension Liability-2016	0.022399%	0.052831%	
Proportion of the Net Pension Liability-2015	0.022775%	0.048701%	
Percentage Change	<u>(0.000376%)</u>	<u>0.004130%</u>	
Pension Expense	\$500,241	\$514,753	\$1,014,994

**CITY OF EATON, OHIO**

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

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**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$1,140,407	\$553,171	\$1,693,578
Change in Proportionate Share	0	152,582	152,582
City contributions subsequent to the measurement date	<u>340,781</u>	<u>233,204</u>	<u>573,985</u>
Total Deferred Outflows of Resources	<u>\$1,481,188</u>	<u>\$938,957</u>	<u>\$2,420,145</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	<u>\$74,964</u>	<u>\$9,543</u>	<u>\$84,507</u>
Total Deferred Inflows of Resources	<u>\$74,964</u>	<u>\$9,543</u>	<u>\$84,507</u>

\$573,985 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2017	\$249,418	\$173,226	\$422,644
2018	267,653	173,226	440,879
2019	290,297	173,226	463,523
2020	258,075	143,736	401,811
2021	0	27,560	27,560
2022	<u>0</u>	<u>5,236</u>	<u>5,236</u>
Total	<u>\$1,065,443</u>	<u>\$696,210</u>	<u>\$1,761,653</u>

**Actuarial Assumptions - OPERS**

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

**CITY OF EATON, OHIO**

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

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**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA (Pre 1/7/13 retirees)	3 percent simple
COLA or Ad Hoc COLA (Post 1/7/13 retirees)	3 percent simple through 2018. 2.8 percent simple, thereafter
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 0.4 percent for 2015.

**CITY OF EATON, OHIO**

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

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$6,181,413	\$3,879,764	\$1,938,397

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

**CITY OF EATON, OHIO**

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

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**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

***Actuarial Assumptions – OPF***

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

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

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 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 EATON, OHIO**

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

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2015 are summarized below:

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

\* levered 2x

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

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$4,482,377	\$3,398,660	\$2,480,645

## *CITY OF EATON, OHIO*

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

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#### **NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

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

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2016, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

## **CITY OF EATON, OHIO**

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

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#### **NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)**

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

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

The City's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 were \$57,758, \$56,967 and \$56,813, respectively, which were equal to the required contributions for each year.

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

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

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

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

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

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



## **CITY OF EATON, OHIO**

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

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#### **NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)**

##### **B. Ohio Police and Fire Pension Fund ("OP&F") (Continued)**

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2016, 2015, and 2014 were \$4,715, \$4,861 and \$4,383 for police and \$1,180, \$1,220 and \$1,164 for firefighters, respectively, which were equal to the required contributions for each year.

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**CITY OF EATON, OHIO**

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

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**NOTE 14 – COMPENSATED ABSENCES**

In accordance with GASB Statement 16, the City accrues unpaid vacation as it is earned and certain portions of sick leave pay as payment becomes probable.

Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>30-40 Hr/Wk Employee Hours Earned/Month</u>
0 thru 5	8.0
5 thru 10	10.7
10 thru 15	12.0
15 thru 30	13.3
Over 30 years	16.0

Appointed employees, which include all department heads and division heads, shall receive 20 days of vacation per year.

No more than the amount of vacation accrued in the previous twenty-four month period can be carried forward into the next calendar year without written consent of the City Manager. Without this approval, any excess is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation up to a maximum of the two-year accrual. Amounts in excess of the two-year accrual are paid currently. Therefore, the entire liability as determined by the above policy is recognized for each fund.

All employees can earn sick leave at the rate of 10 hours for each month of work completed and appointed employees receive 15 days sick leave per year.

It is the policy of the City that an employee with a least three years' service who terminates employment or whose employment is terminated with the City (for other than disciplinary reasons) is entitled to receive payment on the basis of one day's pay for each two days of accrued sick leave not to exceed 120 days for a maximum of 60 days paid. Sick leave is recorded as a long-term obligation, unless there is an indication that the obligation will be liquidated with expendable available financial resources within one year (e.g. announced retirement date).

As of December 31, 2016, the accrued liability for unpaid compensated absences was \$788,577 for all funds. The liability for unpaid compensated absences will be paid from the General Fund, the Public Safety Fund, Street Construction, Maintenance and Repair Fund, Cemetery Fund, Recreation Fund, Fort St. Clair Fund, Capital Improvement Fund, Water Fund, Sewer Fund, and Refuse Fund.

**CITY OF EATON, OHIO**

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

**NOTE 15 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 2016 are as follows:

Interest Rate	Purpose	Maturity Date	Balance December 31, 2015	Additions	Deductions	Balance December 31, 2016	Amount Due Within One Year
<b>Governmental Activities:</b>							
General Obligation Bond:							
4.69%	Municipal Court Facility	2018	\$300,268	\$0	(\$115,876)	\$184,392	\$121,450
Ohio Public Works Commission Loans:							
0.00%	Washington-Jackson Street	2019	192,500	0	(55,000)	137,500	55,000
0.00%	Downtown Improvements	2020	168,750	0	(37,500)	131,250	37,500
Total Ohio Public Works Commission Loans			361,250	0	(92,500)	268,750	92,500
Net Pension Liability:							
Ohio Public Employee's Retirement System			2,057,331	838,121	0	2,895,452	0
Ohio Police and Fire Pension Fund			2,522,904	875,756	0	3,398,660	0
Total Net Pension Liability			4,580,235	1,713,877	0	6,294,112	0
Compensated Absences			638,460	166,628	(184,233)	620,855	191,683
Total Governmental Activities			5,880,213	1,880,505	(392,609)	7,368,109	405,633
<b>Business-Type Activities:</b>							
Ohio Water Development Authority Loan							
2.75%	Water Treatment Plant and Tower	2027	3,001,324	0	(204,223)	2,797,101	209,877
Net Pension Liability:							
Ohio Public Employee's Retirement System			689,589	294,723	0	984,312	0
Compensated Absences			192,981	38,839	(64,098)	167,722	61,290
Total Business-Type Activities			3,883,894	333,562	(268,321)	3,949,135	271,167
Total Other Long-Term Obligations			\$9,764,107	\$2,214,067	(\$660,930)	\$11,317,244	\$676,800

On July 1, 1997, the City entered into a loan agreement with the Ohio Public Works Commission (OPWC) for renovation of the City's downtown area. This loan was approved for a total of \$750,000 with a 0% interest rate. Proceeds were drawn down as funds were expended. As of December 31, 1999, the City had drawn down the entire \$750,000 of this loan. The repayment of this debt began in 2000. Annual required payments are \$37,500 and are paid out the Capital Improvement Fund.

On March 5, 2003, the City issued bonds in the amount of \$1,375,000 for the purpose of paying costs of constructing a new Eaton Municipal Court Facility, including landscaping, utility and other site improvements, and furniture and equipment. The bonds carry an interest rate of 4.69% per annum and mature on March 1, 2018. The 2016 debt service payment, which includes interest, was \$128,614 and was paid out of the Municipal Court Special Projects Fund.

**CITY OF EATON, OHIO**

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

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**NOTE 15 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)**

On January 1, 2007, the City entered into a loan agreement with the Ohio Water Development Authority (OWDA) for the construction of a new 1.5 million gallon water tower and the renovation of the main water treatment plant. This loan was approved for eligible project costs for an amount not to exceed \$5,247,302 at an interest rate of 2.75%, payable in semi-annual installments for 20 years. Established as a draw loan, the final loan amount was \$4,367,476. Debt payment began on July 1, 2008 with a 20 year repayment. The 2016 debt service payment, which includes interest, was \$285,364 and was paid out of the Water Fund.

On July 1, 2008, the City entered into a loan agreement with the Ohio Public Works Commission (OPWC) for reconstruction of Washington-Jackson Street. The loan was for \$550,000 with a 0% interest rate. Proceeds were drawn down as funds were expended on the project and repayment began on July 1, 2010. Annual payments are \$55,000 and are paid out of the Capital Improvement Fund.

**A. Long-Term Funding Requirements**

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

Years	Governmental Activities				Business-Type Activities	
	General Obligation Bond		OPWC Loans		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$121,450	\$7,237	\$92,500	\$0	\$209,877	\$75,487
2018	62,942	1,474	92,500	0	215,689	69,677
2019	0	0	65,000	0	221,661	63,704
2020	0	0	18,750	0	227,799	57,566
2021	0	0	0	0	234,106	51,259
2022-2026	0	0	0	0	1,271,429	155,395
2027-2028	0	0	0	0	416,540	11,506
Totals	<u>\$184,392</u>	<u>\$8,711</u>	<u>\$268,750</u>	<u>\$0</u>	<u>\$2,797,101</u>	<u>\$484,594</u>

## ***CITY OF EATON, OHIO***

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

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#### **NOTE 16 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2016, the City contracted with the U.S. Specialty Insurance Company to provide conventional insurance protection.

The type of coverage and deductible for each is as follows:

<u>Type of Coverage</u>	<u>Per Occurrence</u>	<u>Deductible</u>
Property insurance	\$27,254,825	1,000
General liability	\$1,000,000/3,000,000	1,000
Police liability	\$1,000,000/1,000,000	2,500
Umbrella	\$5,000,000	2,500
Employee dishonesty	\$100,000	250
Crime	\$25,000	250
Inland marine	\$1,537,876	1,000
Automobile	\$4,202,478	1,000*

\* \$500 for comprehensive, \$1,000 on collision

There have been no significant reductions in coverage as compared to the prior year. Settled claims have not exceeded this commercial coverage in any of the past five years.

The City joined a workers' compensation group rating plan, which allows local governments to group the experience of employers for workers' compensation rating purposes. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries.

#### **NOTE 17 - CONTINGENCIES**

Under the terms of federal grants, periodic audits are required and certain expenditures may be questioned as not appropriate under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. It is the opinion of management that any questioned costs will be resolved in favor of the City and that reimbursement, if any, will not have a material effect on the City's financial position.

The City was a defendant in a number of lawsuits pertaining to matters, which are incidental to performing routine governmental and other functions. Legal counsel cannot estimate exposure, if any, in these suits. All cases are being defended vigorously by the City. It is the opinion of management and the City's legal counsel that sufficient resources will be available for the payment of such claims, if any, upon ultimate settlement.

*REQUIRED SUPPLEMENTAL INFORMATION*

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**CITY OF EATON, OHIO**

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

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**Ohio Public Employees Retirement System**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.022775%	0.022775%	0.022399%
City's proportionate share of the net pension liability (asset)	\$2,684,876	\$2,746,920	\$3,879,764
City's covered-employee payroll	\$2,768,508	\$2,791,683	\$2,787,758
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.98%	98.40%	139.17%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%

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

**Ohio Police and Fire Pension Fund**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.048701%	0.048701%	0.052831%
City's proportionate share of the net pension liability (asset)	\$2,371,882	\$2,522,904	\$3,398,660
City's covered-employee payroll	\$1,128,427	\$1,020,069	\$1,137,678
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	210.19%	247.33%	298.74%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%

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

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

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

**CITY OF EATON, OHIO**

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***Schedule of City Contributions  
Last Four Years***

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**Ohio Public Employees Retirement System**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$359,906	\$335,002	\$334,531	\$340,781
Contributions in relation to the contractually required contribution	<u>359,906</u>	<u>335,002</u>	<u>334,531</u>	<u>340,781</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$2,768,508	\$2,791,683	\$2,787,758	\$2,839,842
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%

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

**Ohio Police and Fire Pension Fund**

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$188,443	\$203,535	\$226,472	\$233,204
Contributions in relation to the contractually required contribution	<u>188,443</u>	<u>203,535</u>	<u>226,472</u>	<u>233,204</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$1,128,427	\$1,020,069	\$1,137,678	\$1,172,912
Contributions as a percentage of covered-employee payroll	16.70%	19.95%	19.91%	19.88%

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

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.





**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Required by *Government Auditing Standards***

City of Eaton  
Preble County  
328 North Maple Street  
Eaton, Ohio 45320

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Eaton, Preble County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 9, 2017.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "BHM CPA Group". The letters are cursive and somewhat stylized.

BHM CPA Group, Inc.  
Piketon, Ohio  
June 9, 2017



# Dave Yost • Auditor of State

CITY OF EATON

PREBLE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 8, 2017