



Dave Yost • Auditor of State

**CITY OF UNION
MONTGOMERY COUNTY
DECEMBER 31, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Union
Montgomery County
118 North Main Street
Union, Ohio 45322

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 Union, Montgomery County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 19 to the financial statements, the December 31, 2015 net position of Governmental Activities and fund balances in the General Fund and Street Light Fund were restated. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, *Required budgetary comparison schedules* 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 March 20, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2018

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 are as follows:

- Governmental activities reported a change in net position of \$193,127; a 2.9% increase.
- Business-type activities reported a positive change in net position of \$243,636; a 2.4% increase. All three enterprise funds (water, sewer and storm water) reported a positive change in fund balance for the year primarily due to the small increase in water and sewer rates enacted during 2016 as well as the relatively small change in operating expenses.
- The General Fund reported a fund balance of \$656,678 which was a decrease of \$54,015 from the fund balance reported at the end of the prior year.
- The City continues to work through the Montgomery County Transportation Improvement District (MCTID) to finalize the infrastructure improvements to the Global Logistics Air Park necessary to facilitate development within the Park. The MCTID has been responsible for the administration of the project costs, including financing, until the infrastructure is titled over to the City. The total outstanding project cost is reported as an intergovernmental payable by the City and at December 31, 2016 this liability totaled \$10.8 million.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized to provide the reader with an overview of the City's condition as a whole and then proceed to provide a more detailed view of the City's operations.

The Statement of Net Position and the Statement of Activities provide the overview of the whole City, with a longer-term outlook of the City's financial condition. Major fund financial statements provide the next level of detail, providing information on short-term activities with a focus on the City's most significant funds. The remaining non-major funds are presented in total in one column.

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially in 2016?"

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The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets, liabilities, and deferred inflow/outflow of resources of the City using the accrual basis of accounting, similar to the accounting methods used by private-sector companies. This basis of accounting includes all of the current year's revenue and expenses, regardless of when cash was received or paid.

These two statements report the City's net position and the change in that position from the prior year. Net position can be defined as the difference between assets and deferred outflows of resources compared with liabilities and deferred inflows of resources, and the measurement of this difference can be used to monitor the City's financial health. Other factors must then be considered, such as the City's property tax base, the condition of the streets and other capital assets, and the growth or decline in area businesses and residential neighborhoods.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities.

- Governmental Activities – Most of the City's services are reported here and include police, fire, emergency medical, refuse collection, public maintenance, parks and recreation, judicial, legislative, and executive.
- Business-Type Activities – These services include water, sewer, and storm water. Service fees for these operations are charged based upon usage. The intent is that the fees are sufficient to cover the costs of operation.

Reporting the City's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins after the Statement of Activities. The City uses many different funds, some of which are required by law and others are used to help segregate and control revenues intended for specific purposes. The City has two kinds of funds - "governmental" and "proprietary". The proprietary funds support the business-type activities.

Governmental Funds – Fund financial statements provide the detailed information about the General, Police, Fire/EMS, TIF, Street Light and Refuse funds. Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a 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 available in the near future to finance City 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.

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Proprietary Funds – City utility services for water, sewer, and storm water are operated as enterprise funds. These are business-type activities that receive a significant portion of their funding from user charges. These funds are listed under the heading of "business-type activities" on the Statement of Net Position and the Statement of Activities and reported in much the same manner as proprietary funds; therefore, these statements will essentially match. The reader should note that these funds are a part of the "government-wide" statements, but not a part of the "governmental funds".

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

The City as a Whole

The Statement of Net Position provides a perspective of the City as a whole. Table 1 provides a summary of the City's net position for the year ended December 31, 2016 as compared to December 31, 2015.

TABLE 1
Statement of Net Position, December 31

	2016			2015 - Restated		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other Assets	\$ 6,274,414	1,549,192	7,823,606	6,228,348	1,479,172	7,707,520
Capital Assets	<u>6,541,825</u>	<u>12,624,167</u>	<u>19,165,992</u>	<u>6,376,851</u>	<u>12,132,270</u>	<u>18,509,121</u>
Total Assets	<u>12,816,239</u>	<u>14,173,359</u>	<u>26,989,598</u>	<u>12,605,199</u>	<u>13,611,442</u>	<u>26,216,641</u>
Deferred Outflow of Resources:	<u>11,391,247</u>	<u>213,371</u>	<u>11,604,618</u>	<u>12,096,065</u>	<u>63,370</u>	<u>12,159,435</u>
Liabilities:						
Current and Other Liabilities	10,960,110	322,228	11,282,338	11,941,465	19,169	11,960,634
Long-term Liabilities	<u>3,033,907</u>	<u>3,828,363</u>	<u>6,862,270</u>	<u>2,827,758</u>	<u>3,669,377</u>	<u>6,497,135</u>
Total Liabilities	<u>13,994,017</u>	<u>4,150,591</u>	<u>18,144,608</u>	<u>14,769,223</u>	<u>3,688,546</u>	<u>18,457,769</u>
Deferred Inflow of Resources:	<u>3,310,776</u>	<u>12,551</u>	<u>3,323,327</u>	<u>3,222,475</u>	<u>6,314</u>	<u>3,228,789</u>
Net Position:						
Net Investment in Capital Assets	5,509,079	9,130,285	14,639,364	5,239,457	8,917,196	14,156,653
Restricted	1,774,475	-	1,774,475	1,974,584	-	1,974,584
Unrestricted	<u>(380,861)</u>	<u>1,093,303</u>	<u>712,442</u>	<u>(504,475)</u>	<u>1,062,756</u>	<u>558,281</u>
Total Net Position	<u>\$ 6,902,693</u>	<u>10,223,588</u>	<u>17,126,281</u>	<u>6,709,566</u>	<u>9,979,952</u>	<u>16,689,518</u>

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In the prior year, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which 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, the focus was on funding prior to GASB 68. 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.

Under the requirement included within GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

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

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

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

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As required by 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 or deferred outflows.

The amount by which the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources is called net position. As of December 31, 2016 the City's overall net position was \$17.1 million. Of this amount, \$14.6 million was invested in capital assets, net of related debt. The increase in net capital assets reported for 2016 compared to 2015 is attributable to the current year additions of capital assets exceeding depreciation expense, as well as the payment of capital related debt during the year.

The increase in current assets and deferred inflows of resources reported for 2016 compared with 2015 is primarily attributable to an increase in the cash balances at the end of the current year as well as the increase in taxes receivable. The City continues to benefit from development within the City which has significantly increased income tax revenues over the past few years. Overall, current liabilities and deferred outflows of resources decreased during 2016, however a significant portion of both of these accounts relate to the Air Park project which is currently being accounted for by the MCTID; 2016 was the first year payments were made by the City against these obligations. The long-term obligations of the City increased by \$365,135 as the increase in the net pension liability coupled with the new debt obligations of the City resulted in the long-term liabilities increasing during 2016.

The following table shows the changes in net position for the year ended December 31, 2015 as compared to fiscal year ended December 31, 2016.

TABLE 2
Change in Net Position

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2016</u>	<u>2015 - Restated</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015 - Restated</u>
REVENUES:						
Program Revenues:						
Charges for Services	\$ 1,307,760	1,212,818	1,556,428	1,546,846	2,864,188	2,759,664
Operating Grants and Contributions	569,688	539,754	-	-	569,688	539,754
Capital Grants and Contributions	-	-	86,482	49,981	86,482	49,981
General Revenues:						
Income Taxes	1,119,511	774,030	-	-	1,119,511	774,030
Property Taxes	1,543,226	1,436,286	-	-	1,543,226	1,436,286
TIF Service Payments	1,786,114	-	-	-	1,786,114	-
Grants and Contributions not Restricted	115,796	149,596	-	-	115,796	149,596
Investment Income	9,191	2,458	5,983	2,195	15,174	4,653
Other Revenue	59,992	161,488	-	-	59,992	161,488
Transfers	-	-	-	-	-	-
Gain on Sale of Assets	45,000	-	45,000	-	90,000	-
Total Revenue	<u>6,556,278</u>	<u>4,276,430</u>	<u>1,693,893</u>	<u>1,599,022</u>	<u>8,250,171</u>	<u>5,875,452</u>

(Continued)

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TABLE 2 - Continued
Change in Net position

	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015 - Restated	2016	2015	2016	2015 - Restated
EXPENSES:						
General Government	2,993,428	992,888	-	-	2,993,428	992,888
Security of Persons and Property	1,941,793	1,678,287	-	-	1,941,793	1,678,287
Public Health Services	14,867	18,378	-	-	14,867	18,378
Transportation	708,838	679,182	-	-	708,838	679,182
Community Environment	526,547	509,259	-	-	526,547	509,259
Leisure Time Activities	76,588	70,865	-	-	76,588	70,865
Water	-	-	527,068	530,375	527,068	530,375
Sewer	-	-	774,996	713,841	774,996	713,841
Stormwater	-	-	148,193	167,276	148,193	167,276
Interest Expense	101,090	48,378	-	-	101,090	48,378
Total Expenses	<u>6,363,151</u>	<u>3,997,237</u>	<u>1,450,257</u>	<u>1,411,492</u>	<u>7,813,408</u>	<u>5,408,729</u>
Change in Net Position	193,127	279,193	243,636	187,530	436,763	466,723
Net Position, Beginning of Year	<u>6,709,566</u>	<u>6,430,373</u>	<u>9,979,952</u>	<u>9,792,422</u>	<u>16,689,518</u>	<u>16,222,795</u>
Net Position, End of Year	<u>\$ 6,902,693</u>	<u>6,709,566</u>	<u>10,223,588</u>	<u>9,979,952</u>	<u>17,126,281</u>	<u>16,689,518</u>

Governmental Activities

Total expenses of governmental activities increased dramatically (59.2%) over those reported in 2015. The largest increase, \$2.0 million, was seen in the general government function and was attributable primarily to the payment made on the Air Park development liability as the TIF district started to generate funds during the year. An additional factor resulting in the higher expenses for 2016 for the various functional areas relates to the accounting for pensions. As previously mentioned, the City's pension expense is now based on several factors including the future pension benefits that have already been earned based on service and the performance of the investment portfolios held by the retirement system(s). The earnings for the measurement period used to calculate 2016 pension expense were not as strong as the prior period, therefore the result was a higher pension cost for the participating employers for the period. The volatility experienced by the retirement system will have a corresponding volatility to the reported expenses of the participating employers as well.

The City's next largest function expense is for the Public Safety Division. During 2016 expenses in this function increased 15.7% over those of the prior year due to higher personnel costs (as explained above). This function has a voted property tax levy which generates funds to help cover the net expenses of approximately \$1.1 million. In comparison, the General Government function reported program revenue totaling just \$134,683, resulting in a net expense of \$2.8 million. However, as mentioned above the activity of the TIF district is accounted for within this functional area and revenue generated by this activity was \$1.8 million for the year and reported within the general revenues section of the statement of activities.

Business-Type Activities

Overall, the City's business-type activities generated \$1.6 million in operating revenues which resulted in positive change in net position for the year despite a small increase in operating costs. Personnel costs will fluctuate from year to year depending on the needed general maintenance necessary to run the utilities operations. All three enterprise operations reported an increase in net position for 2016.

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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

TABLE 3
Total and Net Cost of Program Services

	2016		2015 - Restated	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 2,993,428	(2,858,745)	992,888	(810,162)
Security of Persons and Property	1,941,793	(1,124,878)	1,678,287	(991,567)
Public Health Services	14,867	(5,296)	18,378	(8,334)
Transportation	708,838	(341,516)	679,182	(350,383)
Community Environment	526,547	21,379	509,259	31,914
Leisure Time Activities	76,588	(75,557)	70,865	(67,755)
Interest Expense	<u>101,090</u>	<u>(101,090)</u>	<u>48,378</u>	<u>(48,378)</u>
Total Expenses	<u>\$ 6,363,151</u>	<u>(4,485,703)</u>	<u>3,997,237</u>	<u>(2,244,665)</u>
BUSINESS-TYPE ACTIVITIES:				
Water	\$ 527,068	177,332	530,375	69,284
Sewer	774,996	29,498	713,841	99,665
Stormwater	<u>148,193</u>	<u>(14,177)</u>	<u>167,276</u>	<u>16,386</u>
Total Expenses	<u>\$ 1,450,257</u>	<u>192,653</u>	<u>1,411,492</u>	<u>185,335</u>

THE CITY'S FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of expendable resources. As of December 31, 2016, the City's governmental funds reported revenues and other financing sources of \$6.6 million and expenditures and other financing uses of \$6.7 million, with combined fund balances of \$1.7 million. Of the \$1.7 million fund balance, \$1.1 is restricted or committed for specific purposes and cannot be used for general operations.

The General Fund is the chief operating fund of the City. At December 31, 2016, the unassigned fund balance of the General Fund was reported at \$177,591, a decrease from the \$423,833 reported at the end of the prior year. The decrease in unassigned fund balance resulted from the inclusion of a higher amount of carryover fund balance into budgeted appropriations for the subsequent period. This amount is reported as assigned fund balance.

Enterprise Funds

The City's enterprise funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year amounted to \$604,053, \$418,277 and \$70,973 for the water, sewer and storm water funds, respectively. The changes in net position for the water, sewer and storm water funds were increases of \$195,412, \$46,976, and \$1,248, respectively. Total operating expenses for all proprietary funds were \$1.4 million which were slightly less than the operating revenues reported. Ending unrestricted net position as of December 31, 2016 was

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114.6%, 54.7%, and 48.2% of the operating expenses reported for the water, sewer and storm water operations, respectively. During 2016, the City's utilities saw revenue growth through an increase in demand due to increased housing starts as well as industrial development.

General Fund Budgeting Highlights

For the General Fund, actual budget basis revenue was \$1.7 million which was \$314,811 higher than the final budget estimate. The variance between actual and the final budget basis revenue is primarily due to the additional income taxes received by the City during the year due to economic improvements. The City continues to estimate revenues conservatively due to the current economic conditions in the state of Ohio.

Total actual expenditures (including transfers) on the budget basis were \$1.6 million which were only \$156,862 more than original expenditure budget estimates. Actual budgeted expenditures were \$69,138 below the final budget estimates for expenditures.

CAPITAL ASSETS AND INFRASTRUCTURE

At December 31, 2016, the City has invested in land, construction in progress, buildings, improvements, equipment, vehicles and infrastructure with amounts totaling \$6.5 million and \$12.6 million in governmental activities and business-type activities, respectively. Table 4 shows December 31, 2016 balances compared to December 31, 2015 amounts. Additional information regarding the City's capital assets can be found in the Notes to the Basic Financial Statements in Note 7.

TABLE 4
Capital Assets, December 31

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 1,411,489	-	1,411,489	1,279,452	-	1,279,452
Construction in Progress	45,576	9,955	55,531	-	369,028	369,028
Infrastructure	2,177,586	17,160,500	19,338,086	2,177,586	16,721,189	18,898,775
Buildings	2,387,527	3,221,382	5,608,909	2,387,527	3,221,382	5,608,909
Improvements	229,204	31,921	261,125	229,204	31,921	261,125
Equipment	3,318,597	1,938,522	5,257,119	3,046,815	1,261,038	4,307,853
Vehicles	2,013,943	197,982	2,211,925	1,922,177	184,725	2,106,902
Less: Accumulated						
Depreciation	(5,042,097)	(9,936,095)	(14,978,192)	(4,665,910)	(9,657,013)	(14,322,923)
Totals	\$ <u>6,541,825</u>	<u>12,624,167</u>	<u>19,165,992</u>	<u>6,376,851</u>	<u>12,132,270</u>	<u>18,509,121</u>

Overall, the net capital assets increased by \$656,871 (3.5%), from those reported one year prior as current year capital asset additions exceeded depreciation expense for the year. The significant capital assets additions reported for the year include, the acquisition of a new VAC-CON vehicle for the utilities, purchase and equipping two dump trucks, the start of wellfield pond improvements, as well as various vehicle and equipment purchases throughout the City's departments.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

DEBT ADMINISTRATION

At December 31, 2016 the City reported total debt obligations of \$4.5 million consisting of general obligation bonds, long-term notes payable, OPWC loans payable and capital leases. Governmental activities are responsible for \$1.0 million of the debt obligations including \$112,659 due within the next year. Business-type activities are responsible for the remaining \$3.5 million in debt obligations, \$285,548 of which are due within one year.

During 2016, principal payments totaled \$135,648 for the governmental activities on general debt obligations; \$55,000 in general obligations bonds, \$40,000 in long-term notes and \$40,648 in capital lease obligations, respectively. Business-type activities reported \$291,348 of principal payment on debt obligations in total; \$10,000 for general obligation bonds, \$117,246 for OPWC loans payable, \$116,000 for long-term notes, and \$48,102 for capital lease obligations. During the year, the City borrowed an additional \$245,256 in interest free OPWC loans to finance various water and storm water projects in the City as well as entering into a \$324,900 capital lease agreement to finance the purchase of the new VAC-CON vehicle.

See Notes 13 and 14 of the Notes to the Basic Financial Statements for more detailed information on debt obligations of the City.

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 Denise Winemiller, Finance Director, City of Union, 118 North Main Street, Union, Ohio 45322.

CITY OF UNION
MONTGOMERY COUNTY, OHIO

Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,572,765	1,424,669	2,997,434
Receivables:			
Taxes	1,877,798	-	1,877,798
Accounts	164,373	120,832	285,205
Special Assessments	477,669	-	477,669
TIF	1,786,114	-	1,786,114
Intergovernmental	332,669	-	332,669
Prepaid Items	7,839	974	8,813
Materials and Supplies Inventory	55,187	2,717	57,904
Capital Assets:			
Capital assets not subject to depreciation:			
Land	1,411,489	-	1,411,489
Construction in Progress	45,576	9,955	55,531
Capital assets, net of accumulated depreciation	<u>5,084,760</u>	<u>12,614,212</u>	<u>17,698,972</u>
Total Assets	<u>12,816,239</u>	<u>14,173,359</u>	<u>26,989,598</u>
DEFERRED OUTFLOW OF RESOURCES:			
Amount Payable on TID Project	10,749,004	-	10,749,004
Pension	<u>642,243</u>	<u>213,371</u>	<u>855,614</u>
Total Deferred Outflow of Resources	<u>11,391,247</u>	<u>213,371</u>	<u>11,604,618</u>
LIABILITIES:			
Accounts Payable	36,442	667	37,109
Accrued Wages and Benefits	28,078	9,092	37,170
Due to Other Governments	10,754,793	1,463	10,756,256
Accrued Interest Payable	5,646	9,181	14,827
Noncurrent Liabilities:			
Due Within One Year	135,151	301,825	436,976
Due In More Than One Year:			
Net Pension Liability	2,026,737	534,574	2,561,311
Other	<u>1,007,170</u>	<u>3,293,789</u>	<u>4,300,959</u>
Total Liabilities	<u>13,994,017</u>	<u>4,150,591</u>	<u>18,144,608</u>
DEFERRED INFLOW OF RESOURCES:			
Property Taxes	1,476,916	-	1,476,916
TIF	1,786,114	-	1,786,114
Pension	<u>47,746</u>	<u>12,551</u>	<u>60,297</u>
Total Deferred Inflow of Resources	<u>3,310,776</u>	<u>12,551</u>	<u>3,323,327</u>
NET POSITION:			
Net Investment in Capital Assets	5,509,079	9,130,285	14,639,364
Restricted for:			
Public Safety Services	421,410	-	421,410
Transportation	596,589	-	596,589
Street Lights	593,191	-	593,191
Refuse	151,460	-	151,460
Other Purposes	11,825	-	11,825
Unrestricted	<u>(380,861)</u>	<u>1,093,303</u>	<u>712,442</u>
Total Net Position	<u>\$ 6,902,693</u>	<u>10,223,588</u>	<u>17,126,281</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Activities
For the Year Ended December 31, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Security of Persons and Property	\$ 1,941,793	614,549	202,366	-	(1,124,878)		(1,124,878)
Public Health Services	14,867	9,571	-	-	(5,296)		(5,296)
Leisure Time Activities	76,588	1,031	-	-	(75,557)		(75,557)
Community Environment	526,547	547,926	-	-	21,379		21,379
Transportation	708,838	-	367,322	-	(341,516)		(341,516)
General Government	2,993,428	134,683	-	-	(2,858,745)		(2,858,745)
Interest and Fiscal Charges	101,090	-	-	-	(101,090)		(101,090)
Total Governmental Activities	6,363,151	1,307,760	569,688	-	(4,485,703)		(4,485,703)
Business-Type Activities:							
Water	527,068	617,918	-	86,482		177,332	177,332
Sewer	774,996	804,494	-	-		29,498	29,498
Stormwater	148,193	134,016	-	-		(14,177)	(14,177)
Total Business-Type Activities	1,450,257	1,556,428	-	86,482		192,653	192,653
Total	\$ 7,813,408	2,864,188	569,688	86,482	(4,485,703)	192,653	(4,293,050)
General Revenues:							
Taxes:							
Income Taxes for General Operations					1,119,511	-	1,119,511
Property Taxes, Levied for:							
General Operations					157,887	-	157,887
Security of Persons and Property					1,149,806	-	1,149,806
Transportation					235,533	-	235,533
TIF Service Payments					1,786,114	-	1,786,114
Grants and Contributions not Restricted to Specific Programs					115,796	-	115,796
Investment Income					9,191	5,983	15,174
Other Revenue					59,992	-	59,992
Gain on Sale of Assets					45,000	45,000	90,000
Total General Revenues					4,678,830	50,983	4,729,813
Change in Net Position					193,127	243,636	436,763
Net Position, Beginning of Year - Restated					6,709,566	9,979,952	16,689,518
Net Position, End of Year					\$ 6,902,693	10,223,588	17,126,281

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO

Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	Police Fund	Fire/EMS Fund	TIF Fund	Street Light Fund	Refuse Fund
ASSETS:						
Equity in Pooled Cash and Cash Equivalents	\$ 550,347	143,050	78,963	-	223,421	136,372
Receivables:						
Taxes	504,805	725,302	387,150	-	-	-
Accounts	17,174	-	101,239	-	-	45,960
Special Assessments	84,683	-	-	-	392,986	-
TIF	-	-	-	1,786,114	-	-
Intergovernmental	50,822	63,875	33,823	-	-	-
Prepaid Items	4,149	2,087	1,116	-	-	487
Materials and Supplies Inventory	19,972	-	347	-	-	-
Total Assets	<u>1,231,952</u>	<u>934,314</u>	<u>602,638</u>	<u>1,786,114</u>	<u>616,407</u>	<u>182,819</u>
DEFERRED OUTFLOW OF RESOURCES:						
Amount Payable on TID Project	-	-	-	10,749,004	-	-
Total Assets and Deferred Outflow of Resources	<u>\$ 1,231,952</u>	<u>934,314</u>	<u>602,638</u>	<u>12,535,118</u>	<u>616,407</u>	<u>182,819</u>
LIABILITIES:						
Accounts Payable	\$ -	-	-	-	-	36,442
Accrued Wages and Benefits	5,273	8,069	7,937	-	392	1,455
Intergovernmental Payable	917	1,792	1,925	10,749,004	91	228
Total Liabilities	<u>6,190</u>	<u>9,861</u>	<u>9,862</u>	<u>10,749,004</u>	<u>483</u>	<u>38,125</u>
DEFERRED INFLOW OF RESOURCES:						
Property Taxes	155,164	698,309	372,673	-	-	-
TIF	-	-	-	1,786,114	-	-
Unavailable Revenue	413,920	85,988	147,005	-	392,986	-
Total Deferred Inflow of Resources	<u>569,084</u>	<u>784,297</u>	<u>519,678</u>	<u>1,786,114</u>	<u>392,986</u>	<u>-</u>
FUND BALANCES:						
Nonspendable:						
Prepaid Items	4,149	2,087	1,116	-	-	487
Material and Supplies Inventory	19,972	-	347	-	-	-
Restricted:						
Security of Person and Property	-	138,069	71,635	-	-	-
Street Repair and Maintenance	-	-	-	-	-	-
Street Lighting	-	-	-	-	222,938	-
Other	-	-	-	-	-	-
Committed:						
Community Environment	-	-	-	-	-	144,207
Assigned:						
Recreation Programs	37,252	-	-	-	-	-
Subsequent Appropriations	417,714	-	-	-	-	-
Unassigned	177,591	-	-	-	-	-
Total Fund Balances	<u>656,678</u>	<u>140,156</u>	<u>73,098</u>	<u>-</u>	<u>222,938</u>	<u>144,694</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 1,231,952</u>	<u>934,314</u>	<u>602,638</u>	<u>12,535,118</u>	<u>616,407</u>	<u>182,819</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 December 31, 2016

Nonmajor Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$ 1,732,660
440,612	1,572,765	<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
260,541	1,877,798	Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	6,541,825
-	164,373		
-	477,669		
-	1,786,114		
184,149	332,669	Other long-term assets are not available to pay for current period expenditures and therefore are unavailable in the funds.	
-	7,839	Income Taxes	262,612
<u>34,868</u>	<u>55,187</u>	Property Taxes	47,260
920,170	6,274,414	Intergovernmental	302,496
		Charges for Services	118,378
-	10,749,004	Special Assessments	477,669
920,170	17,023,418	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
-	36,442	General Obligation Bonds	(794,250)
4,952	28,078	Long-Term Notes Payable	(178,500)
<u>836</u>	<u>10,754,793</u>	Capital Lease Obligations	(28,996)
5,788	10,819,313	Accrued Interest Payable	(5,646)
		Compensated Absences	(140,575)
250,770	1,476,916	The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:	
-	1,786,114	Deferred Outflows - Pension	642,243
<u>168,516</u>	<u>1,208,415</u>	Deferred Inflows - Pension	(47,746)
419,286	4,471,445	Net Pension Liability	<u>(2,026,737)</u>
-	7,839	Net Position of Governmental Activities	\$ <u>6,902,693</u>
34,868	55,187		
6,125	215,829		
425,813	425,813		
-	222,938		
28,290	28,290		
-	144,207		
-	37,252		
-	417,714		
<u>-</u>	<u>177,591</u>		
495,096	1,732,660		
920,170	17,023,418		

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Police Fund	Fire/EMS Fund	TIF Fund	Street Light Fund	Refuse Fund
REVENUES:						
Property Taxes	\$ 154,902	719,440	383,947	-	-	-
Income Taxes	1,075,566	-	-	-	-	-
TIF Service Payments	-	-	-	1,786,114	-	-
Intergovernmental Revenue	113,579	130,536	66,677	-	-	-
Charges for Services	12,887	-	192,156	-	-	547,926
Special Assessments	-	-	-	-	352,088	-
Fines, Licenses and Permits	117,688	-	-	-	-	-
Investment Income	4,203	772	367	-	1,483	566
Other Revenue	33,896	541	554	-	19	889
Total Revenues	<u>1,512,721</u>	<u>851,289</u>	<u>643,701</u>	<u>1,786,114</u>	<u>353,590</u>	<u>549,381</u>
EXPENDITURES:						
Current:						
Security of Persons and Property	-	772,513	637,955	-	365,544	-
Public Health Services	-	-	-	-	-	-
Leisure Time Activities	73,377	-	-	-	-	-
Community Environment	-	-	-	-	-	522,311
Transportation	-	-	-	-	-	-
General Government	991,622	-	-	1,729,826	-	-
Capital Outlay	318,458	59,358	31,344	-	101,470	13,257
Debt Service:						
Principal	-	13,750	81,250	-	19,210	8,608
Interest	-	9,905	31,989	56,288	486	767
Total Expenditures	<u>1,383,457</u>	<u>855,526</u>	<u>782,538</u>	<u>1,786,114</u>	<u>486,710</u>	<u>544,943</u>
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>129,264</u>	<u>(4,237)</u>	<u>(138,837)</u>	<u>-</u>	<u>(133,120)</u>	<u>4,438</u>
OTHER FINANCING SOURCES (USES):						
Sale of Capital Assets	-	-	-	-	-	-
Loss on Sale of Development Property	(43,279)	-	-	-	-	-
Transfers In	-	25,000	107,000	-	-	-
Transfers Out	(140,000)	(34,500)	-	-	-	-
Total Other Financing Sources (Uses)	<u>(183,279)</u>	<u>(9,500)</u>	<u>107,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(54,015)	(13,737)	(31,837)	-	(133,120)	4,438
Fund Balance, Beginning of Year - Restated	710,693	153,893	104,935	-	356,058	140,256
Fund Balance, End of Year	\$ <u>656,678</u>	<u>140,156</u>	<u>73,098</u>	<u>-</u>	<u>222,938</u>	<u>144,694</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2016

Nonmajor Governmental Funds	Total Governmental Funds		
258,321	1,516,610	Total Net Change in Fund Balances - Governmental Funds	\$ (156,597)
-	1,075,566	Amounts reported for governmental activities in the statement of activities are different because:	
-	1,786,114	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. These amounts comprise the change in capital assets for the year.	
367,884	678,676	Capital Asset Additions	554,661
9,571	762,540	Current Year Depreciation	(389,687)
-	352,088	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
-	117,688	Income Taxes	43,945
1,800	9,191	Property Taxes	26,616
17,970	53,869	Intergovernmental	6,808
655,546	6,352,342	Charges for Services	34,477
		Special Assessments	40,967
		Repayment of debt, including capital leases, is an expenditure in the governmental funds, but the repayment reduces the long-term liability in the statement of net position.	
82,735	1,858,747		135,648
15,722	15,722	Some expenses in reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
-	73,377	Compensated Absences	(10,243)
-	522,311	Accrued Interest	(988)
467,229	467,229	Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	
-	2,721,448	Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	170,331
98,312	622,199		(262,811)
12,830	135,648	Change in Net Position of Governmental Activities	
667	100,102		\$ 193,127
677,495	6,516,783		
(21,949)	(164,441)		
51,123	51,123		
-	(43,279)		
42,500	174,500		
-	(174,500)		
93,623	7,844		
71,674	(156,597)		
423,422	1,889,257		
495,096	1,732,660		

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO

Statement of Fund Net Position
Enterprise Funds
December 31, 2016

	Water	Sewer	Stormwater	Total
Assets:				
Current Assets:				
Cash and Cash Equivalents	\$ 735,227	598,276	91,166	1,424,669
Accounts Receivable	58,475	51,344	11,013	120,832
Supplies Inventory	2,717	-	-	2,717
Prepaid Items	487	487	-	974
Total Current Assets	<u>796,906</u>	<u>650,107</u>	<u>102,179</u>	<u>1,549,192</u>
Non-current Assets:				
Construction in Progress	-	-	9,955	9,955
Depreciable Capital Assets, net	5,324,349	5,179,811	2,110,052	12,614,212
Total Non-current Assets	<u>5,324,349</u>	<u>5,179,811</u>	<u>2,120,007</u>	<u>12,624,167</u>
Total Assets	<u>6,121,255</u>	<u>5,829,918</u>	<u>2,222,186</u>	<u>14,173,359</u>
Deferred Outflows of Resources:				
Pension	81,808	115,194	16,369	213,371
Total Deferred Outflows of Resources	<u>81,808</u>	<u>115,194</u>	<u>16,369</u>	<u>213,371</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	667	-	-	667
Accrued Wages and Benefits	3,137	3,836	2,119	9,092
Accrued Interest Payable	-	9,181	-	9,181
Due to Other Governments	508	642	313	1,463
Compensated Absences Payable	7,340	8,017	920	16,277
Bond Anticipation Notes Payable	-	127,500	-	127,500
Issue II Loans Payable	78,799	36,124	6,647	121,570
Capital Lease Payable	9,461	11,807	9,460	30,728
General Obligation Bonds Payable	-	-	5,750	5,750
Total Current Liabilities	<u>99,912</u>	<u>197,107</u>	<u>25,209</u>	<u>322,228</u>
Long Term Liabilities:				
Compensated Absences Payable	38,536	42,090	4,829	85,455
Issue II Loans Payable	1,663,301	422,139	178,613	2,264,053
Capital Lease Payable	86,746	89,391	86,144	262,281
Long-Term Notes Payable	-	682,000	-	682,000
Net Pension Liability	219,662	276,481	38,431	534,574
Total Long Term Liabilities	<u>2,008,245</u>	<u>1,512,101</u>	<u>308,017</u>	<u>3,828,363</u>
Total Liabilities	<u>2,108,157</u>	<u>1,709,208</u>	<u>333,226</u>	<u>4,150,591</u>
Deferred Inflows of Resources:				
Pension	4,811	6,777	963	12,551
Total Deferred Inflows of Resources	<u>4,811</u>	<u>6,777</u>	<u>963</u>	<u>12,551</u>
Net Position:				
Net Investment in Capital Assets	3,486,042	3,810,850	1,833,393	9,130,285
Unrestricted	604,053	418,277	70,973	1,093,303
Total Net Position	<u>\$ 4,090,095</u>	<u>4,229,127</u>	<u>1,904,366</u>	<u>10,223,588</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Revenues, Expenses and Changes in Fund Net Position
Enterprise Funds
For the Year Ended December 31, 2016

	Water	Sewer	Stormwater	Total
Operating Revenues:				
Charges for Services	\$ 573,428	782,471	133,819	1,489,718
Tap-In Fees	11,000	14,400	-	25,400
Other Operating Revenue	14,093	7,623	197	21,913
Total Operating Revenue	<u>598,521</u>	<u>804,494</u>	<u>134,016</u>	<u>1,537,031</u>
Operating Expenses:				
Personal Services	227,034	338,907	51,003	616,944
Contractual Services	96,980	149,552	9,406	255,938
Supplies and Materials	7,611	80,647	2,228	90,486
Other Expenses	3,623	1,826	328	5,777
Depreciation	191,766	193,045	84,181	468,992
Total Operating Expenses	<u>527,014</u>	<u>763,977</u>	<u>147,146</u>	<u>1,438,137</u>
Operating Income (Loss)	<u>71,507</u>	<u>40,517</u>	<u>(13,130)</u>	<u>98,894</u>
Non-Operating Revenues (Expenses):				
Interest	3,080	2,478	425	5,983
Grant Revenue	86,482	-	-	86,482
Interest and Fiscal Charges	(54)	(11,019)	(1,047)	(12,120)
Gain on Sale of Capital Asset	15,000	15,000	15,000	45,000
Property Rental Revenue	19,397	-	-	19,397
Total Non-Operating Revenues (Expenses)	<u>123,905</u>	<u>6,459</u>	<u>14,378</u>	<u>144,742</u>
Change in Net Position	195,412	46,976	1,248	243,636
Net Position at Beginning of Year	<u>3,894,683</u>	<u>4,182,151</u>	<u>1,903,118</u>	<u>9,979,952</u>
Net Position at End of Year	<u>\$ 4,090,095</u>	<u>4,229,127</u>	<u>1,904,366</u>	<u>10,223,588</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2016

	Water	Sewer	Stormwater	Total
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 594,475	803,475	133,971	1,531,921
Cash Payments to Employees for Services and Benefits	(214,500)	(316,534)	(47,731)	(578,765)
Cash Payments to Suppliers for Goods and Services	(107,418)	(229,866)	(11,495)	(348,779)
Net Cash Provided by Operating Activities	<u>272,557</u>	<u>257,075</u>	<u>74,745</u>	<u>604,377</u>
Cash Flows from Noncapital Financing Activities:				
Property Rental Receipts	19,397	-	-	19,397
Net Cash Provided by Noncapital Financing Activities:	<u>19,397</u>	<u>-</u>	<u>-</u>	<u>19,397</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(466,521)	(124,363)	(45,105)	(635,989)
Proceeds from Sale of Capital Assets	15,000	15,000	15,000	45,000
Proceeds from Loans and Notes	245,256	809,500	-	1,054,756
Capital Grant	86,482	-	-	86,482
Principal Paid on Capital Leases	(14,446)	(19,210)	(14,446)	(48,102)
Principal Paid on Bonds	-	-	(10,000)	(10,000)
Principal Paid on Notes	-	(925,500)	-	(925,500)
Principal Paid on Loans	(74,476)	(36,123)	(6,647)	(117,246)
Interest expense	(427)	(9,422)	(1,204)	(11,053)
Net Cash Used in Capital and Related Financing Activities	<u>(209,132)</u>	<u>(290,118)</u>	<u>(62,402)</u>	<u>(561,652)</u>
Cash Flows from Investing Activities:				
Interest	3,080	2,478	425	5,983
Net Cash Provided by Investing Activities	<u>3,080</u>	<u>2,478</u>	<u>425</u>	<u>5,983</u>
Net Increase (Decrease) in Cash and Cash Equivalents	85,902	(30,565)	12,768	68,105
Cash and Cash Equivalents Beginning of Year	649,325	628,841	78,398	1,356,564
Cash and Cash Equivalents End of Year	<u>\$ 735,227</u>	<u>598,276</u>	<u>91,166</u>	<u>1,424,669</u>
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</i>				
Operating Income (Loss)	\$ 71,507	40,517	(13,130)	98,894
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	191,766	193,045	84,181	468,992
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(4,046)	(1,019)	(45)	(5,110)
(Increase) Decrease in Supplies Inventory	4	1,475	-	1,479
(Increase) Decrease in Prepaid Items	565	684	467	1,716
(Increase) Decrease in Deferred Outflows	(57,042)	(81,925)	(11,034)	(150,001)
Increase (Decrease) in Accounts Payable	227	-	-	227
Increase (Decrease) in Accrued Salaries Payable	712	1,641	1,302	3,655
Increase (Decrease) in Due to Other Governments	(1,464)	(2,083)	(168)	(3,715)
Increase (Decrease) in Compensated Absences Payable	192	1,178	275	1,645
Increase (Decrease) in Net Pension Liability	67,792	100,100	12,466	180,358
Increase (Decrease) in Deferred Inflows	2,344	3,462	431	6,237
Net Cash Provided by Operating Activities	<u>\$ 272,557</u>	<u>257,075</u>	<u>74,745</u>	<u>604,377</u>

Capital and Related Financing Activities - Noncash Activity:

In 2016, the Water, Sewer and Storm Water funds acquired a capital asset through a capital lease with \$108,300 recorded in each fund, respectively.

See accompanying notes to the basic financial statements.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1- REPORTING ENTITY

The City of Union (the City) is a charter municipal corporation operating under the laws of the State of Ohio. The City was incorporated on July 15, 1907. A charter was first adopted on November 3, 1981.

The municipal government provided by the charter is known as a Mayor-Council-Manager form of government. Legislative power is vested in a seven-member Council, each elected to four year terms. The Council appoints the City Manager. The City Manager is the chief executive officer and the head of the administrative agencies of the City. He appoints all department heads and employees, except as otherwise provided in the charter.

Reporting Entity

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

The primary government consists of all funds and departments which provide various services including police protection, rescue squad, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare, water, sewer and refuse collection. Council and the City Manager are directly responsible for these activities.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

Police Fund – This fund accounts for all transactions relating to the provision of police and public safety services to the City.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fire and EMS Fund – This fund accounts for all transactions relating to the provision of fire protection and emergency services to the City.

TIF Fund – This fund accounts for all transactions relating to the financing, construction and debt service associated with roadway and utility improvements within the TIF district.

Street Light Fund – This fund accounts for all transactions relating to the provisions of street lighting of roadways within the City.

Refuse Fund – This fund accounts for all transactions relating to the provision of solid waste removal from residents and commercial users within the City.

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

Proprietary Fund Types

The proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City reports only enterprise funds.

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

Water Fund – The water fund accounts for the provisions of water treatment and distribution to the residential, commercial and industrial users located within the City.

Sewer Fund – The sewer fund accounts for the provisions of sanitary sewer service to the residential, commercial and industrial users located within the City.

Storm Water Fund - This fund accounts for the collection of storm water runoff from residential, commercial and industrial users within the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has no funds which are classified as fiduciary funds.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transaction

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: income tax, state-levied locally shared taxes (including local government assistance, gasoline tax and vehicle license tax), fines and forfeitures, and investment earnings.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral of amounts payable associated with the infrastructure construction project being managed and recorded by the Montgomery County Transportation Improvement District (MCTID) and for pension. Financing for the infrastructure project is provided by a SIB loan from the State of Ohio, through the Montgomery County Port Authority. Once the project is complete, the MCTID will transfer the project to the City in its entirety. The amount recorded as a deferred outflow of resources at December 31, 2016 represents the amount borrowed against the SIB loan for the project as of that date (see Note 17). The deferred outflows of resources related to pension are explained further in Note 9.

In addition to liabilities, the statements of financial position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. For the City, deferred inflows of resources include property taxes, tax incremental financing (TIF) and unavailable revenues. Property taxes and TIF represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance subsequent year operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund balance sheet. TIF payments represent reallocation of additional property taxes generated by the improvements noted in the previous paragraph to be used for debt retirement. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. These amounts are recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and further explained in Note 9.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures

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

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

Cash and Cash Equivalents

Cash balances of the City's funds are pooled and invested in short-term investments in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents". The City had funds in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

The City also invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2016. There are no limitations or restrictions on withdrawals from these investments due to redemption notice periods, liquidity fees, or redemption gates. STAROhio does require notice to be given 24 hours in advance for all deposits or withdrawals exceeding \$25 million. STAROhio 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 STAROhio investors will be combined for these purposes.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Interest income is distributed to the funds according to charter and statutory requirements.

Interest revenue is distributed to the funds according to statutory requirements. Interest revenue earned during 2016 amounted to \$9,191 and \$5,983 in the governmental funds and proprietary funds, respectively.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Supplies Inventory

Inventories reported on the government-wide and fund financial statements are presented at cost while inventories of proprietary funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and expensed when used. Reported supplies inventory is included within the nonspendable fund balance classification in the governmental funds category, which indicates that it does not constitute available resources.

Internal Balances

Internal balance amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as “internal balances”. For the year ended December 31, 2016, the City reported no internal balance transactions.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The City maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are expensed. Interest incurred during the construction of capital assets is also capitalized in the enterprise funds.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	45 years
Land Improvements	45 years
Equipment	5 - 15 years
Vehicles	10 years
Infrastructure	45 years

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The City has implemented Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences". Vacation leave accumulated by employees is accrued as a liability as the benefits are earned when both of these conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

A liability for sick leave is accrued using the vesting method which states that the City will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

Pensions

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.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance

The City reports classifications of fund equity based on the purpose for which resources were received and the level of constraint placed on the resources in the governmental funds

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Through the City’s purchasing policy, the Council has given the Finance Director the authority to constrain monies for intended purposes, which are reported as assigned fund balance.

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

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The City considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Net Position

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

Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. At December 31, 2016, none of the reported \$1.8 million in restricted net position was restricted by enabling legislation.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charged for services for water, sewer and storm water. Operating expenses are necessary costs incurred to provide goods or services that are the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditure/expenses in the purchaser funds. Flows of cash or goods from one fund to another without 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. Repayment from funds responsible for particular expenditures/expenses to funds that initially paid for them are not presented on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

Change in Accounting Principle

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

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE (continued)

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

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

GASB Statement No. 77 requires financial statement disclosures that will provide users with information concerning the reporting government's tax abatement programs – nature and magnitude – which will provide information on ability to raise resources and the impact abatement programs have on financial position of the government. The City has evaluated its abated tax revenues for the year and deemed the amount insignificant to the financial statements and therefore the required disclosures have not been included within these financial statements.

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

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

Issued but Not Implemented Accounting Standard

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will require the City to recognize on the face of the financial statements, its proportionate share of the net OPEB liability related to its participation in the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F). This Standard also enhances accountability and transparency through revised note disclosures and required supplementary information. The provisions of this Standard are required to be implemented for reporting periods beginning after June 15, 2017. The City has not early implemented GASB Statement No. 75 and is currently in the process of evaluating the impact this Standard will have on its financial statements; however, that effect is anticipated to be significant.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. 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 year-end, the carrying amount of the City's deposits was \$61,276 and the bank balance was \$252,378. At December 31, 2016, all but \$2,378 of the City's bank deposits were covered by federal depository insurance.

Investments: Investments are required to be reported at fair value. The Ohio Revised Code authorizes the City to invest in United States and State of Ohio Bonds, notes and other obligations; bank certificate of deposits; banker's acceptances; commercial paper notes rated prime and issued by United States Corporations; and STAROhio. Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. At year end the City had investments in STAROhio of \$2,936,158. STAROhio is rated AAAM by Standard and Poor's and comprises 100% of the City's investments.

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of the 2015 taxes.

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - PROPERTY TAXES (continued)

Real property taxes are payable annually or semi-annually. If paid annually, payment is due February 16; if paid semi-annually, the first payment is due February 16 and the remainder payable by July 13. Under certain circumstances, State statute permits later payment dates to be established.

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

The full tax rate for all City operations for the year ended December 31, 2016 was \$18.53 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2016 property tax receipts were based are as follows:

Real Property Tax Assessed Valuation	\$ 102,698,030
Public Utility Tangible Personal Property Assessed Valuation	<u>1,722,500</u>
Total Assessed Valuation	<u>\$ 104,420,530</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represents real and public utility tangible personal property taxes, as well as outstanding delinquencies which are measurable as of December 31, 2016, and for which there is an enforceable legal claim. On the modified accrual basis, the entire receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, collectible delinquent property taxes have been recorded as revenue, while on the modified accrual basis of accounting the revenue has been reported as deferred inflow of resources – unavailable.

NOTE 6 – INCOME TAXES

The City levies a municipal income tax of 1% on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100% of the City's current tax rate. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - CAPITAL ASSETS

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

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Governmental Activities:				
Non-depreciable capital assets				
Land	\$ 1,279,452	132,037	-	\$ 1,411,489
Construction in Progress	-	45,576	-	45,576
Total Non-depreciable capital assets	<u>1,279,452</u>	<u>177,613</u>	<u>-</u>	<u>1,457,065</u>
Depreciable capital assets				
Buildings	2,387,527	-	-	2,387,527
Equipment	3,046,815	285,282	(13,500)	3,318,597
Infrastructure	2,177,586	-	-	2,177,586
Improvements	229,204	-	-	229,204
Vehicles	1,922,177	91,766	-	2,013,943
Total depreciable capital assets	<u>9,763,309</u>	<u>377,048</u>	<u>(13,500)</u>	<u>10,126,857</u>
Less: accumulated depreciation				
Buildings	(646,216)	(53,448)	-	(699,664)
Equipment	(2,428,903)	(121,467)	13,500	(2,536,870)
Infrastructure	(311,800)	(52,617)	-	(364,417)
Improvements	(32,714)	(8,280)	-	(40,994)
Vehicles	(1,246,277)	(153,875)	-	(1,400,152)
Total accumulated depreciation	<u>(4,665,910)</u>	<u>(389,687)</u> *	<u>13,500</u>	<u>(5,042,097)</u>
Depreciable capital assets, net	<u>5,097,399</u>	<u>(12,639)</u>	<u>-</u>	<u>5,084,760</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 6,376,851</u>	<u>164,974</u>	<u>-</u>	<u>\$ 6,541,825</u>

* - depreciation expense was allocated to governmental functions as follows:

General Government	\$ 222,122
Public Safety	7,794
Transportation	<u>159,771</u>
Total Depreciation Expense	<u>\$ 389,687</u>

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - CAPITAL ASSETS (continued)

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Business Type Activities:				
Non-depreciable capital assets				
Construction in Progress	\$ 369,028	9,955	(369,028)	\$ 9,955
Depreciable capital assets				
Buildings	3,221,382	-	-	3,221,382
Equipment	1,261,038	867,394	(189,910)	1,938,522
Infrastructure	16,721,189	439,311	-	17,160,500
Improvements	31,921	-	-	31,921
Vehicles	184,725	13,257	-	197,982
Total depreciable capital assets	21,420,255	1,319,962	(189,910)	22,550,307
Less: accumulated depreciation				
Buildings	(2,531,033)	(56,720)	-	(2,587,753)
Equipment	(997,401)	(46,892)	189,910	(854,383)
Infrastructure	(6,019,145)	(351,988)	-	(6,371,133)
Improvements	(3,962)	(720)	-	(4,682)
Vehicles	(105,472)	(12,672)	-	(118,144)
Total accumulated depreciation	(9,657,013)	(468,992) *	189,910	(9,936,095)
Depreciable capital assets, net	11,763,242	850,970	-	12,614,212
Business Type Activities				
Capital Assets, Net	\$ 12,132,270	860,925	(369,028)	\$ 12,624,167

* - depreciation expense was allocated to business-type activities as follows:

Water	\$ 191,766
Sewer	193,045
Stormwater	84,181
Total Depreciation Expense	<u>\$ 468,992</u>

NOTE 8 - RECEIVABLES

Receivables at December 31, 2016, consisted of taxes, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, TIF, and utility accounts. All receivables are considered fully collectible. Utility accounts receivable at December 31, 2016 were \$120,832.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - 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.

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.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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):

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

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

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

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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:

	State and Local	Public Safety	Law Enforcement
2018 Statutory Maximum Contribution Rates:			
Employer	14.0%	18.1%	18.1%
Employee	10.0%	*	**
2018 Actual Contribution Rates:			
Employer:			
Pension	12.0%	16.1%	16.1%
Post-employment Health Care Benefits	2.0%	2.0%	2.0%
Total Employer	14.0%	18.1%	18.1%
Employee	10.0%	12.0%	13.0%

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required pension contribution was \$150,794 for 2016; \$2,963 is reported as an intergovernmental payable

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

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

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

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

	Police
2016 Statutory Maximum Contribution Rates:	
Employer	19.50%
Employee	12.25%
 2016 Actual Contribution Rates:	
Employer:	
Pension	19.00%
Post-employment Health Care Benefits	0.50%
Total Employer	19.50%
Employee	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$74,490 for 2016; \$3,478 is reported as an intergovernmental payable.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 1,655,921	\$ 905,390	\$ 2,561,311
Proportion of the net pension liability	0.009560%	0.0140740%	
Pension expense	\$ 229,707	\$ 124,652	\$ 354,359

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&F</u>	<u>Total</u>
<u>Deferred Outflows of Resources:</u>			
Net difference between projected and actual earnings on pension plan investments	\$ 487,057	\$ 143,273	\$ 630,330
City contributions subsequent to the measurement date	<u>150,794</u>	<u>74,490</u>	<u>225,284</u>
Total	<u>\$ 637,851</u>	<u>\$ 217,763</u>	<u>\$ 855,614</u>
<u>Deferred Inflows of Resources:</u>			
Differences between expected and actual experience	\$ 32,071	\$ 2,542	\$ 34,613
Change in City's proportionate share	<u>5,443</u>	<u>20,241</u>	<u>25,684</u>
Total	<u>\$ 37,514</u>	<u>\$ 22,783</u>	<u>\$ 60,297</u>

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

\$225,284 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:

	OPERS	OP&F	Total
Fiscal Year Ending December 31:			
2017	\$ 103,984	\$ 33,052	\$ 137,036
2018	111,820	33,052	144,872
2019	123,590	33,051	156,641
2020	110,149	26,558	136,707
2021	-	(4,390)	(4,390)
Thereafter	-	(833)	(833)
	\$ 449,543	\$ 120,490	\$ 570,033

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below:

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25% to 10.05% including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3.00%, simple
Post-January 7, 2013 Retirees	3.00%, simple through 2018, then 2.80% simple
Investment rate of return	8.00%
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.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined 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.

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:

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

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

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 2,638,285	\$ 1,655,921	\$ 827,326

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.

Actuarial Assumptions - OP&F

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

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

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25%
Projected Salary Increases	4.25% to 11.00%
Payroll Increases	3.75%
Inflation Assumptions	3.25%
Cost of Living Adjustments	2.60% and 3.00% simple

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash & Cash Equivalents	0.00%	0.00%	0.00%
Domestic Equity	16.00%	6.50%	7.80%
Non-US Equity	16.00%	6.70%	8.00%
Core Fixed Income *	20.00%	3.50%	5.35%
Global Inflation Protected *	20.00%	3.50%	4.73%
High Yield	15.00%	6.35%	7.21%
Real Estate	12.00%	5.80%	7.43%
Private Markets	8.00%	9.50%	10.73%
Timber	5.00%	6.55%	7.35%
Master Limited Partnerships	<u>8.00%</u>	9.65%	10.75%
Total	<u>120.00%</u>		

* - levered 2x

** - Numbers are net of expected inflation.

Note: Assumptions are geometric.

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

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

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 1,194,089	\$ 905,390	\$ 660,834

NOTE 10 – POSTEMPLOYMENT BENEFITS

Statement 45 of the Governmental Accounting Standards Board (GASB), “Accounting and Financial Reporting by Employers for Post-employment benefits other than Pension,” establishes standards for disclosure information for postemployment benefits other than pension benefits. Both OPERS and OP&F have post-employment benefits that meet the definition as described in GASB Statement 45.

Ohio Public Employees Retirement System

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

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

In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS’ CAFR referenced as follows for additional information.

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2016, state and local employers contributed at a rate of 14% of earnable salary, and public safety and law enforcement employers contribute at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2% for both the Traditional Pension and Combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4%.

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

Actual employer contributions for 2016, 2015 and 2014 which were used to fund postemployment benefits were \$25,133, \$23,797 and \$26,500, respectively; 100% has been contributed for all three years.

Ohio Police and Fire Pension Fund

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

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 meets the definition of an Other Post Employment Benefit (OPEB) as described by GASB Statement 45.

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

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

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

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Service 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, employer contributions allocated to health care was 0.5% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees 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 actual contributions for 2016, 2015 and 2014 that were used to fund postemployment benefits were \$1,967, \$1,552 and \$1,868, respectively; 100% has been contributed for all three years.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 11 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation accrual for the City as a whole amounted to \$121,220 at December 31, 2016.

Accumulated Unpaid Sick Leave

All hourly employees earn 4.6 hours of sick leave per 80 hours worked. All salaried employees earn sick leave at the rate of 1.25 days per month. Upon qualifying to retire under one of the two pension systems an employee who has unused accumulated sick leave of up to 60 days is eligible to be paid for a portion of these hours. An employee with between 10 and 20 years of service will be paid at a rate of one day's pay for every two days accrued. An employee with over twenty years of service shall receive one day's pay for each day of accumulated sick leave. The total obligation for sick leave accrual for the City as a whole as of December 31, 2016 was \$121,087.

NOTE 12 - 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 renewed their contract with the Ohio Government Risk Management Plan. This Plan does not operate as a risk pool, but provides conventional insurance protection and reinsures these coverages 100 percent. The type of coverage and deductible for each is as follows:

<u>Type of Coverage</u>	<u>Per Occurrence</u>	<u>Deductible</u>
General Liability	\$ 5,000,000	no deductible
Police Liability	5,000,000	\$ 2,500
Errors and Omissions	5,000,000	2,500
Automobile	5,000,000	1,000
Property Insurance	10,511,974	1,000
Terrorism	12,983,884	25,000
Inland Marine	9,854,802	1,000
Special Property	1,833,210	1,000
Crime	100,000	1,000
Cyber	250,000	25,000
EDP	103,550	1,000

Settled claims have not exceeded commercial coverage, nor has there been any reduction in coverage amounts, 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.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - RISK MANAGEMENT (Continued)

For 2016, the City provided employee medical insurance benefits through Anthem Blue Cross & Blue Shield of Ohio. The City covers the employee's premiums and deductibles by budgeting \$243,000 for health insurance expenditures. This money is set aside to cover each employee's monthly premium and deductible of \$6,000 after the employee pays the first \$500. If the money set aside is not depleted, the City places the excess into a savings account. In 2016, the City made no contributions to or withdrawals from the savings account and the account has an approximate balance of \$129,839. This amount is reflected in the cash balance of each fund based on the original contribution.

Dental benefits are also provided by the City.

NOTE 13 - CAPITALIZED LEASES

During 2016, the City entered into a lease agreement to purchase a Vac-Con for the utilities department. This lease meets the criteria to be classified as a capital lease where in both the benefits and risks of ownership were transferred to the lessee. The City has also purchase of equipment and vehicles in prior years using similar agreements.

Capital lease payments have been reclassified and are reflected as debt service in the respective funds instead of the functional expenditures reported on a budgetary basis. The Vac-Con purchased in 2016 has been capitalized on the statement of net position as equipment for \$324,900, which is the present value of the total minimum lease payments to be made under the agreement. The bobcat and trailer purchased in 2014 were capitalized on the statement of net position for \$81,172. The ambulance purchased in 2012 has been capitalized on the statement of net position for \$211,645 and the dump truck has been capitalized on the statement of net position for \$209,300 and was fully paid off during 2016. Principal payments in 2016 for capital leases were \$88,750.

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of December 31, 2016.

Year ending December 31,	<u>Capital Lease Obligation</u>
2017	\$ 54,623
2018	54,622
2019	36,932
2020	36,932
2021	36,932
2022-2025	<u>147,727</u>
Total minimum lease payments	367,768
Less: Amount representing interest	<u>(45,763)</u>
Minimum lease payments	<u>\$ 322,005</u>

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations for the year consist of the following:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016	Amount Due In One Year
<u>Governmental Activities:</u>					
2007 Various Purpose General					
Obligation Bonds, 4.5%	\$ 849,250	\$ -	\$ (55,000)	\$ 794,250	\$ 59,250
Long-term Notes Payable	218,500	-	(40,000)	178,500	39,000
Capital lease obligation	69,644	-	(40,648)	28,996	14,409
Compensated Absences	130,332	31,093	(20,850)	140,575	22,492
Net Pension Liability:					
OPERS	806,786	314,561	-	1,121,347	-
OP&F	753,246	152,144	-	905,390	-
Total governmental activities	<u>\$ 2,827,758</u>	<u>\$ 497,798</u>	<u>\$ (156,498)</u>	<u>\$ 3,169,058</u>	<u>\$ 135,151</u>
<u>Business-type Activities:</u>					
2007 Various Purpose General					
Obligation Bonds, 4.5%	\$ 15,750	\$ -	\$ (10,000)	\$ 5,750	\$ 5,750
OPWC Loans	2,257,613	245,256	(117,246)	2,385,623	121,570
Long-term Notes Payable	925,500	-	(116,000)	809,500	127,500
Capital lease obligation	16,211	324,900	(48,102)	293,009	30,728
Compensated Absences	100,087	17,720	(16,075)	101,732	16,277
Net Pension Liability:					
OPERS	354,216	180,358	-	534,574	-
Total business-type activities	<u>\$ 3,669,377</u>	<u>\$ 768,234</u>	<u>\$ (307,423)</u>	<u>\$ 4,130,188</u>	<u>\$ 301,825</u>

The City issued general obligation bonds in 2007 to refinance short-term bond anticipation notes issued for the construction costs associated with the repair and replacement of water and sewer lines, renovation of the municipal building and the expansion of the fire station. The general obligations bonds are currently being paid from the Police Fund, Fire/EMS Fund, and Storm Water Fund. The City's future debt service requirements (principal and interest) for the general obligation bonds are as follows:

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 59,250	\$ 36,456	\$ 5,750	\$ 575
2018	60,000	33,294	-	-
2019	60,000	30,594	-	-
2020	65,000	27,894	-	-
2021	70,000	24,969	-	-
2022-2026	390,000	75,569	-	-
2027	90,000	4,162	-	-
Total	<u>\$ 794,250</u>	<u>\$ 232,938</u>	<u>\$ 5,750</u>	<u>\$ 575</u>

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

The City has obtained interest free loans through the Ohio Public Works Commission over the past several years for various utility projects as listed below:

<u>Project</u>	<u>Year of Loan</u>	<u>Original Loan Amount</u>	<u>Year of Maturity</u>	<u>Debt Service Made From</u>
Rhinehart Rd Sanitary Pump Station	2008	\$ 279,273	2023	Sewer Fund
Phillipsburg-Union Rd. Sanitary Sewer	2008	496,822	2028	Sewer Fund
Sanitary Sewer Lagoon Aeration	2011	144,721	2041	Sewer Fund
Water Tower Construction	2010	1,405,000	2040	Water Fund
Shaw Rd Water Tank Recoating	2011	407,744	2031	Water Fund
Hawker Street Water Main Replacement	2014	87,914	2044	Water Fund
W. Martindale Water Main Replacement	2015	259,444	2046	Water Fund
Concord West Channel Rehabilitation	2012	50,000	2042	Storm Water Fund
Storm Sewer Lateral and Basin - Phase 1	2015	149,397	2045	Storm Water Fund

The City's future debt service payments for the interest free OPWC loans are as follows:

<u>Business-Type Activities</u>			
<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2017	\$ 121,570	2022-2026	585,240
2018	121,569	2027-2031	501,033
2019	121,569	2032-2036	349,413
2020	121,568	2037-2041	276,752
2021	121,570	2042-2046	65,339
		Total	<u>\$ 2,385,623</u>

In 2016, the City issued bond anticipation notes (BANs to refinance a BAN issued in the prior year to finance the acquisition of a fire truck , the Old Springfield Rd. sewer extension project, and improvements to the City's waste water treatment plant). The BANs related to the fire truck, sewer extension project, and waste water treatment plant improvements amount to \$178,500, \$354,500, and \$455,000 respectively and matured on March 3, 2017. The BANs were refinanced by the City by issuing a BAN, at 1.75% interest rate, totaling \$821,500; \$139,500 related to the purchase of the fire truck, \$286,000 related to the sewer extension project, and \$396,000 for waste water treatment plant improvements. As the refinancing of these BANs extended the terms of past one year from the date of the end of the current fiscal year, the 2016 BANs were classified as long term obligations, with the amount the reduced amount at which the 2017 BANs were issued being reported as due within one year. The fire truck portion of the BAN is being repaid from the Fire/EMS Fund and the portion of the BAN related to the sewer extension and waste water treatment plant projects are repaid from the Sewer Fund.

The City pays obligations related to employee compensation (compensated absences and pension contributions) from the fund benefitting from their service.

At December 31, 2016, the City's overall legal debt margin was \$9,176,156 and the unvoted debt margin was \$3,955,129.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 15 - INTERFUND TRANSFERS AND BALANCES

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers from the general fund are to provide additional resources for current operations as well as for debt service. The transfers from the police fund to the non-major police pension fund are regular transfers which enables the City to make its annual payment on pension obligations.

The City had the following transfers during 2016:

Transfer from Fund	Transfer to Fund	Amount
General	Police Fund	\$ 25,000
	Fire/EMS Fund	107,000
	Other Governmental	8,000
Police	Other Governmental	<u>34,500</u>
		<u>\$ 174,500</u>

NOTE 16 - FEDERAL AND STATE GRANTS

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

NOTE 17 – CONSTRUCTION COMMITMENTS

In September 2013, the City entered into a Financing and Implementation Agreement with the Montgomery County Transportation Improvement District (MCTID) to construct a new roadway for, as well as to provide necessary utilities to, the Global Logistics Air Park intended to support current and future development within the industrial park. Financing for this project was provided by the City, through a State Infrastructure Bank (SIB) loan obtained through the Montgomery County Port Authority, and grants provided by Montgomery County and the State of Ohio. Total estimated cost for the entire project was estimated to be \$13.2 million. The MCTID is responsible for the management and financial accounting associated with the project until deemed completed. At that point, the MCTID will transfer the project assets out of its construction in progress and transfer the completed assets to the City.

As of December 31, 2016 the Montgomery County Port Authority had a balance of \$10.7 in SIB loan and private purpose bonds issued on behalf of the City to pay for construction costs to date, after the City paid \$1.7 million during year against the liability. In accordance with the terms of the SIB loan, the amortization schedule will not be sent and subsequent payment will not be due, until the project is completed and the infrastructure has been deeded over to the City. The private purpose bonds require the City to transfer TIF revenue resulting from the project to the MCTID for payments due on those bonds. As such, the City has reported the \$10.7 million currently owed for this project at the end of 2016 as an intergovernmental payable with an offsetting deferred outflow of resources representing amounts are currently due for payment.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 18 – SUBSEQUENT EVENTS

In March 2017, the City issued a various purpose general obligation bond anticipation note in the amount of \$821,000 (1.75 percent fixed rate) in order to refinance the 2016 outstanding bond anticipation notes associated with the fire truck purchase, the Old Springfield Rd. sewer extension, and the wastewater system treatment plant improvements. The 2017 note has a maturity date of December 1, 2017. In November 2017, the City issued various purpose general obligation bonds in the amount of \$4,820,000 in order to refinance these bond anticipation notes, refund the Series 2007B bonds for the fire station expansion project, and provide funding for the wastewater treatment plant expansion.

NOTE 19 – RESTATEMENT OF PRIOR YEAR FUND BALANCE/NET POSITION

The sale of development property held for resale, which was not previously recorded in the City's financial statements, and the carry forward of a 2014 GAAP adjusting journal which was carried forward and not detected until 2016. Correction of these two errors had the following effects on the fund balances of the General Fund, Street Light Fund, and Total Governmental Funds reported at December 31, 2015:

	<u>General</u>	<u>Street Light</u>	<u>Total Governmental</u>
Fund Balance at December 31, 2015 as previously reported	\$ 525,693	\$ 384,633	\$ 1,732,832
Corrections:			
Development Property for Resale	185,000	-	185,000
Intergovernmental Receivable	<u>-</u>	<u>(28,575)</u>	<u>(28,575)</u>
Fund Balance at December 31, 2015 as restated	<u>\$ 710,693</u>	<u>\$ 356,058</u>	<u>\$ 1,889,257</u>

This restatement also had the following effects on net position of the Governmental Activities and in Total as it was previously reported as of December 31, 2015:

	<u>Governmental Activities</u>	<u>Total</u>
Net Position at December 31, 2015 as previously reported	\$ 6,553,141	\$ 16,533,093
Adjustments:		
Development Property for Resale	185,000	185,000
Intergovernmental Receivable	<u>(28,575)</u>	<u>(28,575)</u>
Net Position at December 31, 2015 as restated	<u>\$ 6,709,566</u>	<u>\$ 16,689,518</u>

**CITY OF UNION
MONTGOMERY COUNTY, OHIO**

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

LAST THREE YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Ohio Public Employees Retirement</u>			
<u>System - Traditional Plan:</u>			
City's Proportion of the Net Pension Liability	0.009560%	0.009626%	0.009626%
City's Proportionate Share of the Net Pension Liability	\$ 1,655,921	\$ 1,161,003	\$ 1,134,780
City's Covered-Employee Payroll	\$ 1,189,842	\$ 1,180,200	\$ 1,023,046
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	139.17%	98.37%	110.92%
Plan Fiduciary Net Pension as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%
<u>Ohio Police and Fire Pension Fund:</u>			
City's Proportion of the Net Pension Liability	0.0140740%	0.0145403%	0.0145403%
City's Proportionate Share of the Net Pension Liability	\$ 905,390	\$ 753,245	\$ 708,158
City's Covered-Employee Payroll	\$ 301,309	\$ 298,870	\$ 343,314
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	300.49%	252.03%	206.27%
Plan Fiduciary Net Pension as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

Note: Information prior to 2013 is not available. The City will continue to present information for years available until a full ten-year trend is presented.

(1) Amount presented as of the City's measurement date which is the prior fiscal year.

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
SCHEDULE OF THE CITY'S CONTRIBUTIONS
LAST FOUR YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Ohio Public Employees Retirement System - Traditional Plan:</u>				
Contractually Required Contribution	\$ 150,794	\$ 142,781	\$ 141,624	\$ 132,996
Contributions in Relation to the Contractually Required Contributions	<u>(150,794)</u>	<u>(142,781)</u>	<u>(141,624)</u>	<u>(132,996)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered-Employee Payroll	\$ 1,256,617	\$ 1,189,842	\$ 1,180,200	\$ 1,023,046
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%
<u>Ohio Police and Fire Pension Fund:</u>				
Contractually Required Contribution	\$ 74,490	\$ 60,533	\$ 60,850	\$ 58,638
Contributions in Relation to the Contractually Required Contributions	<u>(74,490)</u>	<u>(60,533)</u>	<u>(60,850)</u>	<u>(58,638)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered-Employee Payroll	\$ 382,000	\$ 301,309	\$ 298,870	\$ 343,314
Contributions as a Percentage of Covered-Employee Payroll	19.50%	20.09%	20.36%	17.08%

Note: Information prior to 2013 is not available. The City will continue to present information for years available until a full ten-year trend is presented.

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 159,500	159,500	157,755	(1,745)
Municipal Income Taxes	907,000	907,000	1,059,897	152,897
Intergovernmental Revenue	96,500	101,197	113,584	12,387
Charges for Services	-	-	12,887	12,887
Fines, Licenses and Permits	120,800	120,800	116,611	(4,189)
Investment Income	100	100	3,321	3,221
Other Revenue	89,500	89,500	87,132	(2,368)
Total Revenues	1,373,400	1,378,097	1,551,187	173,090
Expenditures:				
Current:				
General Government	920,623	1,070,623	1,047,858	22,765
Capital Outlay	384,777	334,777	314,404	20,373
Total Expenditures	1,305,400	1,405,400	1,362,262	43,138
Excess of Revenues Over (Under) Expenditures	68,000	(27,303)	188,925	216,228
Other Financing Sources (Uses):				
Proceeds from Sale of Development Property	-	-	141,721	141,721
Transfers Out	(118,000)	(244,000)	(218,000)	26,000
Total Other Financing Sources (Uses)	(118,000)	(244,000)	(76,279)	167,721
Net Change in Fund Balance	(50,000)	(271,303)	112,646	383,949
Fund Balance, Beginning of Year	404,368	404,368	404,368	-
Fund Balance, End of Year	\$ 354,368	133,065	517,014	383,949

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 731,000	731,000	731,382	382
Intergovernmental Revenue	132,000	132,000	130,536	(1,464)
Investment Income	100	100	772	672
Other Revenue	-	-	541	541
Total Revenues	863,100	863,100	863,231	131
Expenditures:				
Current:				
Security of Persons and Property	822,179	822,179	773,957	48,222
Capital Outlay	64,766	64,766	59,358	5,408
Debt Service:				
Principal	13,750	13,750	13,750	-
Interest	9,905	9,905	9,905	-
Total Expenditures	910,600	910,600	856,970	53,630
Excess of Revenues Over (Under) Expenditures	(47,500)	(47,500)	6,261	53,761
Other Financing Sources (Uses):				
Transfers In	-	-	25,000	25,000
Transfers Out	(24,500)	(24,500)	(34,500)	(10,000)
Total Other Financing Sources (Uses)	(24,500)	(24,500)	(9,500)	15,000
Net Change in Fund Balance	(72,000)	(72,000)	(3,239)	68,761
Fund Balance, Beginning of Year	112,613	112,613	112,613	-
Fund Balance, End of Year	\$ 40,613	40,613	109,374	68,761

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire/EMS Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 386,000	386,000	390,384	4,384
Intergovernmental Revenue	68,000	68,000	66,677	(1,323)
Charges for Services	180,000	180,000	192,156	12,156
Investment Income	100	100	152	52
Other Revenue	-	-	872	872
Total Revenues	634,100	634,100	650,241	16,141
Expenditures:				
Current:				
Security of Persons and Property	559,150	638,750	636,332	2,418
Capital Outlay	39,435	39,435	31,344	8,091
Debt Service:				
Principal	262,025	262,025	262,025	-
Interest	29,940	29,940	29,714	226
Total Expenditures	890,550	970,150	959,415	10,735
Excess of Revenues Over (Under) Expenditures	(256,450)	(336,050)	(309,174)	26,876
Other Financing Sources (Uses):				
Proceeds from Note Issuance	178,500	178,500	178,182	(318)
Transfers In	31,950	131,950	107,000	(24,950)
Total Other Financing Sources (Uses)	210,450	310,450	285,182	(25,268)
Net Change in Fund Balance	(46,000)	(25,600)	(23,992)	1,608
Fund Balance, Beginning of Year	46,007	46,007	46,007	-
Fund Balance, End of Year	\$ 7	20,407	22,015	1,608

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Light Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Special Assessments	\$ 370,000	370,000	352,088	(17,912)
Investment Income	300	300	1,483	1,183
Other Revenue	-	-	19	19
Total Revenues	<u>370,300</u>	<u>370,300</u>	<u>353,590</u>	<u>(16,710)</u>
Expenditures:				
Current:				
Security of Persons and Property	406,348	406,348	385,665	20,683
Capital Outlay	199,952	199,952	101,470	98,482
Total Expenditures	<u>606,300</u>	<u>606,300</u>	<u>487,135</u>	<u>119,165</u>
Net Change in Fund Balances	(236,000)	(236,000)	(133,545)	102,455
Fund Balance, Beginning of Year	<u>352,040</u>	<u>352,040</u>	<u>352,040</u>	-
Fund Balance, End of Year	<u>\$ 116,040</u>	<u>116,040</u>	<u>218,495</u>	<u>102,455</u>

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Refuse Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Charges for Services	\$ 530,000	530,000	547,567	17,567
Investment Income	50	50	566	516
Other Revenue	-	-	889	889
Total Revenues	<u>530,050</u>	<u>530,050</u>	<u>549,022</u>	<u>18,972</u>
Expenditures:				
Current:				
Community Environment	560,288	581,288	567,120	14,168
Capital Outlay	<u>121,204</u>	<u>100,204</u>	<u>13,257</u>	<u>86,947</u>
Total Expenditures	<u>681,492</u>	<u>681,492</u>	<u>580,377</u>	<u>101,115</u>
Net Change in Fund Balances	(151,442)	(151,442)	(31,355)	120,087
Fund Balance, Beginning of Year	129,568	129,568	129,568	-
Prior Year Encumbrances Appropriated	<u>36,442</u>	<u>36,442</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 14,568</u>	<u>14,568</u>	<u>98,213</u>	<u>120,087</u>

See accompanying notes to the required supplementary information.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
TIF Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
TIF Service Payments	\$ 1,857,079	1,857,079	1,786,114	(70,965)
Total Revenues	<u>1,857,079</u>	<u>1,857,079</u>	<u>1,786,114</u>	<u>(70,965)</u>
Expenditures:				
Current:				
General Government	1,557,742	1,786,114	1,786,114	-
Capital Outlay	299,337	-	-	-
Total Expenditures	<u>1,857,079</u>	<u>1,786,114</u>	<u>1,786,114</u>	<u>-</u>
Net Change in Fund Balance	-	70,965	-	(70,965)
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>70,965</u>	<u>-</u>	<u>(70,965)</u>

See accompanying notes to the required supplementary information.

CITY OF UNION, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

BUDGETARY BASIS OF ACCOUNTING

Budgetary Process

All funds, except for agency funds, are legally required to be budgeted and appropriated before any expenditure may be made out of the respective funds. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by the Council at the object level for all funds.

Appropriations may be allocated within each department and sub-object level within each fund. Council must approve any revisions that alter total fund or object level appropriations.

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

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

Budget to GAAP Reconciliation

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

The Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis), presented for the general fund and each major special revenue fund is presented on the budgetary basis to provide meaningful comparisons of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

CITY OF UNION, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

3. Outstanding year-end encumbrances are treated as expenditures/expenses (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis). In addition, the refuse fund recognized a capital lease in the GAAP statements which did not provide resources on the budgetary statements.
5. The Parks and Recreation fund is combined with the General Fund for reporting purposes as it has no restricted or committed revenue sources, however, it is legally required to have a separate budget adopted and therefore not combined with the General Fund on the budget basis.
6. Proceeds from sale of development property held for resale are reported on the operating statement (budget basis) rather than as gain or loss on sale transaction (GAAP basis).

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

Excess (Deficiency) of Revenues and Other
Financing Sources Over (Under)
Expenditures and Other Financing Uses
General Fund and Major Special Revenue Funds

	General	Police	Fire/EMS	Street Light	Refuse	TIF
GAAP Basis	\$ (54,015)	\$ (13,737)	\$ (31,837)	\$ (133,120)	\$ 4,438	\$ -
Revenue Accruals	39,797	11,942	6,540	-	(359)	-
Expenditure Accruals	(56,236)	(1,444)	(176,877)	(425)	1,008	-
Encumbrances	-	-	-	-	(36,442)	-
Sale of Development						
Property	185,000	-	-	-	-	-
Fund Debt Components	-	-	178,182	-	-	-
Combined Funds with Legally Adopted Separate Budgets	<u>(1,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budget Basis	<u>\$ 112,646</u>	<u>\$ (3,239)</u>	<u>\$ (23,992)</u>	<u>\$ (133,545)</u>	<u>\$ (31,355)</u>	<u>\$ -</u>

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Dave Yost • Auditor of State

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

City of Union
Montgomery County
118 North Main Street
Union, Ohio 45322

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 Union, Montgomery County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 20, 2018, wherein we noted the City restated its December 31, 2015 net position of Governmental Activities and the fund balances of the General and Street Light Funds.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

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*.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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.



Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2018

**CITY OF UNION
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2016-001

Material Weakness – Financial Statement Errors

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The City presented its financial statements in accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for the State and Local Governments. The City's fiscal year 2016 financial statements contained the following errors, which required adjustment or reclassification on the financial statements:

- Other Operating Revenue was overstated by \$15,000 each in the Stormwater, Water and Sewer Funds due to the misclassification of proceeds from the sale of capital assets, and the Stormwater, Water and Sewer Funds' Sale of Capital Assets Nonoperating Revenue was understated by the same amount. In addition, Business Type Activities Stormwater, Water and Sewer Charges for Services Program Revenue and Sale of Capital Assets General Revenue were overstated and understated, respectively, by \$45,000. This error also resulted in Operating Cash Flows being overstated by \$15,000 and Capital and Related Financing Cash Flows being understated by the same amount in each of the Water, Sewer and Stormwater Funds on the Statement of Cash Flows.
- Other Revenue was overstated by \$45,000 in Nonmajor Governmental Funds due to the misclassification of proceeds from the sale of capital assets, and Nonmajor Governmental Funds Sale of Capital Assets Other Financing Sources was understated by the same amount. In addition, Governmental Activities General Other Revenue and General Sale of Capital Assets Revenue were overstated and understated, respectively, by the same amount.
- Refuse Fund Actual Expenditures on the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual were understated by \$36,442 due to discovery of an unrecorded encumbrance at fiscal year-end.
- Other Revenue was overstated by \$141,721, Loss on Sale Development Property was understated by \$43,279, and Beginning Fund Balance and Net Position was understated by \$185,000 in the General Fund and Governmental Activities, respectively, due to the sale of an asset held for resale never initially being recorded as a capital asset. This error also resulted in overstatement of Other Revenue and understatement of Loss on Sale of Development Property on the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund.
- Intergovernmental Receivable, Beginning Fund Balance and Deferred Inflows of Resources - Unavailable Revenue were overstated by \$34,862, \$28,575 and \$6,287, respectively, in the Street Light Fund due to the incorrect carry forward of a fiscal year 2015 accrual. In addition, Governmental Activities Transportation Operating Grants and Contributions Program Revenue, Beginning Net Position and Intergovernmental Receivable were also overstated by \$6,287, \$28,575 and \$34,862, respectively.

**FINDING NUMBER 2016-001
(Continued)**

- Infrastructure Capital Assets, Net and Depreciation Expense were understated by \$86,769 and \$323, respectively; and Supplies and Materials Expenses were overstated by \$87,092 in the Water Fund and Business Type Activities due to asset purchases which met the City's capital asset criteria not being capitalized and depreciated during fiscal year 2016. This error also resulted in Water Fund Operating Cash Flows being understated by \$87,092 and Capital and Related Financing Cash Flows were overstated by the same amount due to not recording a capital asset addition.

Policies and procedures should be established and implemented to verify the accuracy of amounts reported in the financial statements are in accordance with applicable accounting standards. Failure to do so could result in the users of the financial statements basing their conclusions on misstated financial data.

Officials' Response:

- a. Other revenue overstated (first two bullet points) – reclassification of revenue from one-line item to another. No effect on total revenues, cash balance or fund balance of any of the funds mentioned.
- b. Refuse BVA expenditures understated (third bullet point) – important thing is if the expenditures reported on BVA had twelve months of payments included. This looks at the end of the year only; therefore, if there are twelve months included, adding another month would not make sense.
- c. Land purchase (fourth bullet point) – this issue addresses the accounting for a transaction occurring in prior years for property purchase to allow industrial park land to be annexed into the City. AOS wants the expenditure in prior period as “asset held for resale” while it was argued this was “economic development cost” for the project as the house could have just as easily been demolished as opposed to sold. Regardless of what the transaction is called, beginning balance will need to be restated and therefore would generate an AOS comment.
- d. Intergovernmental receivable in the Street Lightning Fund (fifth bullet point) – error goes back to 2014 when Clark Schaefer Hackett (CSH) did not mark this transaction to reverse in subsequent year. Not caught by 2015 audit but was during the 2016 audit. CSH corrected error in trial balance system.
- e. Capital asset understated in water fund (sixth bullet point) – CSH oversight in computing the current year capital asset additions. Worksheet has been adjusted and should not be an issue going forward.



Dave Yost • Auditor of State

CITY OF UNION

MONTGOMERY 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
APRIL 17, 2018**