



City of Oakwood

Basic Financial Statements
For the Year Ended
December 31, 2016

City of Oakwood, Ohio

Basic Financial Statements
For the Year Ended December 31, 2016

with

Independent Auditor's Report

Prepared by:

Department of Finance

Cindy S. Stafford, CPA

Director of Finance

CITY OF OAKWOOD, OHIO

CITY OFFICIALS

William D. Duncan, Mayor
Steven Byington, Vice Mayor
Robert Stephens
Anne Hilton
Christopher Epley

CITY MANAGER

Norbert S. Klopsch

INDEPENDENT AUDITORS

Plattensburg & Associates, Inc.
Certified Public Accountants

DEPARTMENT OF FINANCE

Staff

Cindy S. Stafford, CPA
Alice K. Young
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Finance Director
Assistant Finance Director
Income Tax Administrator
Account Clerk II
Account Clerk II
Account Clerk II - Income Tax
Part-time Income Tax Clerk

CITY OF OAKWOOD, OHIO

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements:	
Statement of Net Position – December 31, 2016.....	13
Statement of Activities – For the Year Ended December 31, 2016.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds – December 31, 2016.....	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – December 31, 2016.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – For the Year Ended December 31, 2016.....	17
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	18
Statement of Net Position – Proprietary Funds – December 31, 2016	19
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – For the Year Ended December 31, 2016.....	20
Statement of Cash Flows – Proprietary Funds – For the Year Ended December 31, 2016	21
Statement of Assets and Liabilities – Agency Funds – December 31, 2016	22
Notes to the Basic Financial Statements.....	23 - 52
Required Supplementary Information:	
Schedule of The City's Proportionate Share of the Net Pension Liability – Last Three Fiscal Years.....	55
Schedule of The City's Contributions – Last Three Fiscal Years	56
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Budgetary (Non-GAAP) Basis – General Fund – For the Year Ended December 31, 2016	57
Notes to the Required Supplementary Information.	58 - 59



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and the City Council
City of Oakwood
Montgomery County
30 Park Avenue
Oakwood, Ohio 45419

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, 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 accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The 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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Dayton, Ohio
May 19, 2017

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

Our discussion and analysis of the City of Oakwood, Ohio's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2016. The City continues to deal with the impact of the State's reduction in the local share of sales tax distributions (the Local Government Fund), the elimination of the estate tax in 2013 and the expected negative impacts of Substitute House Bill 5 passed in 2014.

Financial Highlights

- Net position increased by \$17,136 or 0.04% and unrestricted net position decreased \$296,451 or 8.55%.
- Total revenues increased \$122,777 or 0.79% and total expenses increased \$446,288 or 2.95%.
- Income taxes increased \$580,592 or 8.71%.
- Total fund balances of governmental activities increased by \$1,392,496 or 13.66%.
- Governmental fund revenues increased \$1,029,512 or 8.26% and governmental fund expenditures increased \$464,342 or 3.99%.
- The net position of the City's business-type activities decreased by \$462,853 or 9.22%.
- Total revenue of business-type activities decreased \$360,397 or 13.17% and total expenses decreased \$54,188 or 1.87%.
- The General Fund balance increased \$888,405 or 11.06%.
- The General Fund revenues increased \$684,399 or 5.92% and expenditures increased \$660,520 or 7.34%.

Using this Annual Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements provide the next level of detail. For governmental activities, these financial statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside government.

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities help to answer this question. These

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

statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's position and changes in that net position. This change informs the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements should take into account non-financial factors that also impact the City. Some of these factors include the City's tax base, the condition of its capital assets, and the reputation of the public schools to assess the overall health of the City.

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

- **Governmental Activities** – Most of the City's services are reported here including police and fire protection, recreation and parks, community environment, street repair and maintenance, and general government.
- **Business-Type Activities** – These services include the water, sewer and stormwater departments where the fees charged for these services are based upon the amount of usage and the intent is to recoup operational costs through the user fees.

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about each major fund. The major funds of the City include the General, Capital Improvement, Water and Sewer funds. The City uses many funds to account for a multitude of financial transactions. However, the focus of the fund financial statements is on the City's most significant funds, and therefore only the major funds are presented in separate columns. All other funds are combined into one column for reporting purposes.

Governmental Funds

Most of the City's activities are reported in the governmental funds, which focus on how money flows into and out of the funds, and the balances left at year-end which would be available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets

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

that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. 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.

Proprietary Funds

When the City charges citizens for the services it provides, with the intent of recouping operating costs, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. Internal service funds are used to report activities that provide services to the City's other funds and departments.

Agency Funds

The financial activity of custodial funds, for which the City acts as the fiscal agent, is reported separately in the Statement of Assets and Liabilities. This financial activity is excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring the assets reported in these funds are used for their intended purposes.

The City as a Whole

The largest impact on the City's financial statement in 2016 had absolutely no impact on the City's financial condition; the implementation of GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27". GASB 68 required the City to recognize a liability of over \$13 million. For reasons discussed below, this liability serves only to distort the true financial position of the City. 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. The resulting net position would be \$51,849,351, which is \$9.5 million more than the net position presented.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to

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

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 standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective 1) Present value of estimated future pension benefits attributable to active and inactive employees' past service and 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.

For 2016, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by a total of \$42.3 million. This represents an increase of 0.04% from the prior year. The unrestricted net position, the net position that can be used to finance daily operation without constraints established by enabling legislation or other legal requirements decreased by \$296,451 or 8.55%. The impact of the increased pension liability of \$3.0 million is the main explanation for the fluctuation from year to year.

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

The following tables provide a summary of the City's net position and changes in net position for the year.

TABLE 1
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 16,173,948	\$ 14,985,031	\$ 3,608,787	\$ 3,833,432	\$ 19,782,735	\$ 18,818,463
Capital assets, net	34,888,953	34,758,514	2,356,929	2,219,246	37,245,882	36,977,760
Total assets	51,062,901	49,743,545	5,965,716	6,052,678	57,028,617	55,796,223
Deferred outflows of resources:						
Pensions	3,448,652	1,352,007	348,935	120,402	3,797,587	1,472,409
Total deferred outflows of resources	3,448,652	1,352,007	348,935	120,402	3,797,587	1,472,409
Current and other liabilities	736,371	691,964	630,643	303,498	1,367,014	995,462
Long-term liabilities:						
Due within one year	601,451	690,147	109,385	127,174	710,836	817,321
Due in more than one year	13,122,830	10,264,204	998,798	713,396	14,121,628	10,977,600
Total liabilities	14,460,652	11,646,315	1,738,826	1,144,068	16,199,478	12,790,383
Deferred inflows of resources:						
Property taxes	2,119,502	2,131,651	-	-	2,119,502	2,131,651
Pensions	185,444	51,620	21,211	11,545	206,655	63,165
Total deferred inflows of resources	2,304,946	2,183,271	21,211	11,545	2,326,157	2,194,816
Net position:						
Invested in capital assets, net	34,888,953	34,758,514	2,356,929	2,206,317	37,245,882	36,964,831
Restricted	1,883,295	1,850,759	-	-	1,883,295	1,850,759
Unrestricted	973,707	656,693	2,197,685	2,811,150	3,171,392	3,467,843
Total net position	\$ 37,745,955	\$ 37,265,966	\$ 4,554,614	\$ 5,017,467	\$ 42,300,569	\$ 42,283,433

TABLE 2
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 2,340,559	\$ 2,328,831	\$ 2,365,278	\$ 2,730,083	\$ 4,705,837	\$ 5,058,914
Operating grants & contributions	814,645	463,660	-	-	814,645	463,660
General revenues:						
Income taxes	7,028,804	6,904,913	-	-	7,028,804	6,904,913
Property taxes	2,404,871	2,366,833	-	-	2,404,871	2,366,833
Unrestricted grants & contributions	479,987	520,423	-	-	479,987	520,423
Investment earnings	61,285	55,001	10,303	10,062	71,588	65,063
Miscellaneous	82,831	90,147	425	(3,742)	83,256	86,405
Total revenues	13,212,982	12,729,808	2,376,006	2,736,403	15,588,988	15,466,211
Program Expenses						
Security of persons and property	5,792,248	5,137,824	-	-	5,792,248	5,137,824
Public health services	92,352	82,549	-	-	92,352	82,549
Leisure time activities	1,022,416	901,207	-	-	1,022,416	901,207
Community environment	1,939,293	1,714,750	-	-	1,939,293	1,714,750
Transportation	935,246	934,428	-	-	935,246	934,428
General government	2,420,090	2,260,703	-	-	2,420,090	2,260,703
Public works	511,434	1,180,482	-	-	511,434	1,180,482
Interest and fiscal charges	19,914	20,574	-	-	19,914	20,574
Water	-	-	1,123,470	1,131,444	1,123,470	1,131,444
Sewer	-	-	1,491,817	1,546,963	1,491,817	1,546,963
Stormwater	-	-	223,572	214,640	223,572	214,640
Total expenses	12,732,993	12,232,517	2,838,859	2,893,047	15,571,852	15,125,564
Changes in net position	479,989	497,291	(462,853)	(156,644)	17,136	340,647
Net position, beginning of year	37,265,966	36,768,675	5,017,467	5,174,111	42,283,433	41,942,786
Net position, end of year	\$ 37,745,955	\$ 37,265,966	\$ 4,554,614	\$ 5,017,467	\$ 42,300,569	\$ 42,283,433

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

Governmental Activities

TABLE 3
ANALYSIS OF PROGRAM EXPENSES
GOVERNMENTAL ACTIVITIES

	Total Expense by Function / Program	Percentage of Total Program Expenses	Total Program Revenue	Net Expense of Function	Percentage of Function Financed with General Revenues
<i>Program Expenses</i>					
Security of persons and property	\$ 5,792,248	45.49%	\$ (251,036)	\$ 5,541,212	95.67%
Public health services	92,352	0.73%	(31,072)	61,280	66.35%
Leisure time activities	1,022,416	8.03%	(485,888)	536,528	52.48%
Community environment	1,939,293	15.23%	(1,275,209)	664,084	34.24%
Transportation	935,246	7.34%	(773,281)	161,965	17.32%
General government	2,420,090	19.00%	(338,718)	2,081,372	86.00%
Public works	511,434	4.02%	-	511,434	100.00%
Interest and fiscal charges	19,914	0.16%	-	19,914	100.00%
	<u>\$ 12,732,993</u>	<u>100.00%</u>	<u>\$ (3,155,204)</u>	<u>\$ 9,577,789</u>	<u>75.22%</u>

Table 3 shows the percentage of total expenses each functional area comprises, the net cost of each functional area and the percentage of each functional area expenses financed with general revenue.

As indicated by Table 3, the City is spending more than half of its resources (60.72%) on the security of person and property (public safety) and community environment activities. The operation of the public safety department is 45.49% of total program expenses, revenues generated by the public safety department cover only 4.33% of functional expenses. This means that general revenues collected by the City, principally income and property taxes, must cover the remaining 95.67% of expenses reported by the public safety department. Refuse collection fees are the most significant program revenue source that helps offset the expenses reported for the community environment functions.

General government functions, principally legislative, administration and judicial activities, comprise 19.00% of the total governmental expenses. Most of the program revenue generated by this function is associated with court fees and fines, as well as other charges for services and operating grants. Charges for services and fees associated with the recreation department accounted for 47.52% of the leisure time activities functional expenses. Expenses associated with street resurfacing, street maintenance, snow removal and operation of the public works department are all included within the transportation function.

General revenues comprise 76.12% of the total governmental revenues collected by the City during 2016. Principal components of general revenues; including income taxes (69.88%) and property taxes (23.91%), are used to furnish the quality of life and services to citizens and businesses to which they have become accustomed.

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

Business-Type Activities

The City's business-type activities include the Water, Sewer and Stormwater operations.

Water – The water department at the City of Oakwood is responsible for the production, treatment and delivery of quality water to businesses and citizens within the boundaries of the City. Various functions within the water department include administration, water production, water distribution and maintaining and upgrading the infrastructure used to produce, treat and distribute the water. The water department in 2016 experienced an operating loss of \$313,117, compared to a loss of \$229,183 in 2015. Operating results for the water fund can vary greatly depending in large part on the amount of irrigation water used throughout the city during the summer months, which is a function of the amount of rainfall during any given year. At December 31, 2016 the unrestricted net position represented 57.85% of the operating expenses reported for 2016.

Sewer – The City's sewer department is responsible for the collection and treatment of wastewater generated throughout the City. Various functions within the sewer department include administration, disposal, and maintaining and upgrading infrastructure used in the collection and disposal of wastewater. The sewer department recognized operating loss of \$174,955 during 2016 as compared to operating income of \$19,265 reported for 2015.

Stormwater – The City's stormwater department is responsible for managing stormwater runoff in a manner consistent with the EPA's National Pollutant Discharge System standards. Citizens are charged a stormwater fee based on their impervious area of developed property. The fund experienced operating income in 2016 of \$53,261 as compared to \$61,011 reported in 2015.

Overall, the City's business-type activities generated \$2.37 million in program revenue during 2016, while program expenses were \$2.84 million. The business-type activities incurred an overall decrease in net position of \$462,853. It should be noted that the unrestricted net position of the business-type activities totaled \$2.20 million at the end of 2016. The amount of unrestricted net position for business-type activities reported at December 31, 2016 equaled 77.41% of the total expenses reported for business-type activities for 2016. Management will continue to monitor utility rate charges and necessary adjustments will be made to provide any additional financial resources needed.

The City's Funds

The governmental funds of the City are reported using the modified accrual basis of accounting. These funds had total revenues of \$13.50 million and expenditures of \$12.10 million for 2016. In total, the governmental funds reported a \$1,392,496 increase in total fund balance for the year. In 2015, the fund balance of the City's governmental funds increased by \$827,326. Most of the increase in 2016 and 2015 is associated with the increase in

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

income taxes as a result of the improving economy. The restricted, committed, assigned, and unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year; these fund balances at December 31, 2016 were \$11.42 million, or 94.32% of the total expenditures reported for the governmental funds for 2016.

The City's General Fund realized an \$888,405 increase in fund balance during 2016 as compared to the \$1,377,656 increase in 2015. The change in general fund balance in 2016 versus 2015 is primarily the result of an improving economy resulting in an increase of income tax receipts of \$580,592. Annually, the General Fund transfers amounts to other funds to cover recreation, street maintenance, state highway and other programs. These transfers also pay for capital improvement projects and construction of capital assets. The General Fund transferred \$1,694,561 to other funds in 2016 as compared to \$1,181,431 to other funds in 2015.

Explanation of the changes in the three enterprise funds of the City, the water, sewer and stormwater funds, follow the same explanations as those provided in the assessment of the business-type activities noted above since enterprise funds are accounted for using full accrual accounting, the same accounting basis used in the city-wide statements.

General Fund Budgeting Highlights

The City's budget is adopted on a fund basis. Before the budget is adopted, council reviews the detailed budgets of each department within the General Fund and other funds, and then adopts the budget on a fund basis. Within each departmental budget, a department head, with the City Manager's approval, may make small line adjustments within their budget, as long as the total operational and maintenance amount does not exceed their budgetary allotment.

For the General Fund, budget basis revenue was \$9.97 million as compared to the actual revenues received of \$10.42 million. The City's variances in revenues received were from the following:

- Income tax receipts were \$446,676 more than budget;
- Investment earnings were \$22,229 more than budget;
- Fines, licenses and permits were \$13,308 more than budget.

The budgeted expenditures of the City did not change from the original budget to the final budget. Actual expenditures were \$435,298 less than budgeted expenditures. For the year ended December 31, 2016 the total actual budgetary change in fund balance for the General Fund was an increase of \$901,688 resulting in a reported \$7,192,108 ending budgetary fund balance. The ending budgetary fund balance or unencumbered fund balance reported at the end of the year was 98.21% of the total budgetary expenditures of the General Fund for 2016.

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

Capital Assets

At the end of 2016, the City had a total of \$70.98 million invested in capital assets less accumulated depreciation of \$33.73 million resulting in total capital assets, net of accumulated depreciation of \$37.25 million.

During 2016, asset additions were as follows:

- Donated land and building of \$241,840;
- Old River Parking Lot currently under construction of \$360,942;
- Infrastructure and building improvements totaling \$144,409;
- Breathing apparatus for firefighters of \$103,520;
- Various equipment totaling \$130,818;
- Refuse Packer replacement of \$81,699;
- Various vehicle replacements totaling \$157,955;
- \$525,893 for asphalt and concrete street programs; and
- \$137,208 for the water meter automated meter reading system.

Table 4 shows 2016 capital asset balances compared to those of 2015:

TABLE 4
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Construction in progress	\$ 360,942	\$ -	\$ -	\$ -	\$ 360,942	\$ -
Land	4,824,164	4,672,504	283,820	283,820	5,107,984	4,956,324
Buildings	8,669,137	8,983,848	237,664	260,738	8,906,801	9,244,586
Land Improvements	1,126,200	1,171,054	39,506	44,833	1,165,706	1,215,887
Equipment	352,632	260,780	306,764	158,568	659,396	419,348
Vehicles	247,721	155,963	70,818	-	318,539	155,963
Infrastructure	<u>19,308,157</u>	<u>19,514,365</u>	<u>1,418,357</u>	<u>1,471,287</u>	<u>20,726,514</u>	<u>20,985,652</u>
Total	<u>\$ 34,888,953</u>	<u>\$ 34,758,514</u>	<u>\$ 2,356,929</u>	<u>\$ 2,219,246</u>	<u>\$ 37,245,882</u>	<u>\$ 36,977,760</u>

Additional information on the City's capital assets can be found in Note 4 to the basic financial statements.

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

Debt Administration

At December 31, 2016, the City had a total of \$456,499 of long-term debt obligations compared with \$485,455 of long-term debt reported at December 31, 2015.

The governmental debt obligations are \$456,499 of police and fire pension liability.

The \$12,929 Ohio Public Works Commission (OPWC) loan reported in the City's sewer fund in 2015 was paid off in 2016. This was an interest free loan which was used to improve the City's sanitary sewer system and was being repaid through operating revenues of the sewer fund.

At December 31, 2016, the City's overall legal debt margin was \$22.20 million and the unvoted debt margin was \$7.40 million. See Note 8 to the basic financial statements for more detailed information on the debt obligations of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances. If you have questions or need additional financial information, please contact Cindy Stafford, CPA Director of Finance, City of Oakwood, 30 Park Avenue, Oakwood, Ohio 45419 or call (937) 298-0402.

CITY OF OAKWOOD, OHIO

Statement of Net Position

December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash and investments	\$ 11,404,721	\$ 2,588,138	\$ 13,992,859
Cash in segregated accounts	11,291	-	11,291
Receivables:			
Property taxes	2,138,789	-	2,138,789
Income taxes	2,396,401	-	2,396,401
Accounts	186,458	265,562	452,020
Special assessments	136,243	63,738	199,981
Interest	9,725	1,947	11,672
Intergovernmental	424,486	-	424,486
Prepaid expenses	35,573	4,927	40,500
Internal balances	(668,723)	668,723	-
Inventory	98,984	15,752	114,736
Nondepreciable capital assets	5,185,106	283,820	5,468,926
Depreciable capital assets (net of accumulated depreciation)	29,703,847	2,073,109	31,776,956
Total assets	\$ 51,062,901	\$ 5,965,716	\$ 57,028,617
Deferred Outflows of Resources			
Pensions	3,448,652	348,935	3,797,587
Total deferred outflows of resources	3,448,652	348,935	3,797,587
Liabilities			
Accounts payable	41,418	351,422	392,840
Contracts payable	99,590	11,856	111,446
Accrued wages payable	108,909	12,178	121,087
Intergovernmental payable	134,418	255,187	389,605
Unearned revenue - income tax credits	352,036	-	352,036
Long-term liabilities:			
Due within one year	601,451	109,385	710,836
Due within more than one year			
Net pension liability	12,226,349	913,365	13,139,714
Other amounts	896,481	85,433	981,914
Total liabilities	14,460,652	1,738,826	16,199,478
Deferred Inflows of Resources			
Property taxes	2,119,502	-	2,119,502
Pensions	185,444	21,211	206,655
Total deferred inflows of resources	2,304,946	21,211	2,326,157
Net Position			
Net investment in capital assets	34,888,953	2,356,929	37,245,882
Restricted for:			
Capital purposes	309,343	-	309,343
Other purposes	1,522,802	-	1,522,802
Permanent endowment:			
Nonexpendable	50,000	-	50,000
Expendable	1,150	-	1,150
Unrestricted	973,707	2,197,685	3,171,392
Total net position	\$ 37,745,955	\$ 4,554,614	\$ 42,300,569

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, 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	Governmental Activities	Business-Type Activities	Total
Functions / Programs						
Governmental activities:						
Security of persons and property	\$ 5,792,248	\$ 219,837	\$ 31,199	\$ (5,541,212)	\$ -	\$ (5,541,212)
Public health services	92,352	29,346	1,726	(61,280)	-	(61,280)
Leisure time activities	1,022,416	479,984	5,904	(536,528)	-	(536,528)
Community environment	1,939,293	1,275,209	-	(664,084)	-	(664,084)
Transportation	935,246	-	773,281	(161,965)	-	(161,965)
General government	2,420,090	336,183	2,535	(2,081,372)	-	(2,081,372)
Public works	511,434	-	-	(511,434)	-	(511,434)
Interest on long-term debt	19,914	-	-	(19,914)	-	(19,914)
Total governmental activities	\$ 12,732,993	\$ 2,340,559	\$ 814,645	(9,577,789)	-	(9,577,789)
Business-type activities:						
Water	1,123,470	771,690	-	-	(351,780)	(351,780)
Sewer	1,491,817	1,316,755	-	-	(175,062)	(175,062)
Stormwater	223,572	276,833	-	-	53,261	53,261
Total business-type activities	2,838,859	2,365,278	-	-	(473,581)	(473,581)
Total	\$ 15,571,852	\$ 4,705,837	\$ 814,645	(9,577,789)	(473,581)	(10,051,370)
General revenues:						
Taxes:						
Income taxes				7,028,804	-	7,028,804
Property taxes levied for:						
General purposes				2,327,786	-	2,327,786
Police and fire pension				77,085	-	77,085
Grants and contributions not restricted						
to specific programs				479,987	-	479,987
Investment earnings				61,285	10,303	71,588
Miscellaneous				82,831	425	83,256
Total general revenues				10,057,778	10,728	10,068,506
Change in net position				479,989	(462,853)	17,136
Net position, beginning of year				37,265,966	5,017,467	42,283,433
Net position, end of year				\$ 37,745,955	\$ 4,554,614	\$ 42,300,569

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

Balance Sheet Governmental Funds December 31, 2016

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash and investments	\$ 8,645,209	\$ 421,375	\$ 2,203,222	\$ 11,269,806
Cash in segregated accounts	9,884	-	1,407	11,291
Receivables:				
Property taxes	2,066,899	-	71,890	2,138,789
Income taxes	2,396,401	-	-	2,396,401
Accounts	153,504	2,124	29,377	185,005
Special assessments	31,741	-	104,502	136,243
Interest	9,155	-	570	9,725
Intergovernmental	226,369	-	198,117	424,486
Prepaid expenses	26,411	-	8,474	34,885
Inventory	32,167	-	40,419	72,586
Total assets	13,597,740	423,499	2,657,978	16,679,217
Liabilities				
Accounts payable	11,875	-	21,076	32,951
Contracts payable	94,755	4,836	-	99,591
Accrued wages payable	97,480	-	8,884	106,364
Intergovernmental payable	122,661	-	9,362	132,023
Unearned revenue - income tax credits	352,036	-	-	352,036
Total liabilities	678,807	4,836	39,322	722,965
Deferred Inflows of Resources				
Unavailable revenue - income taxes	1,638,197	-	-	1,638,197
Unavailable revenue - property taxes	2,066,899	-	71,890	2,138,789
Unavailable revenue - other	291,140	2,124	298,495	591,759
Total deferred inflows of resources	3,996,236	2,124	370,385	4,368,745
Fund Balances				
Nonspendable:				
Prepaid expenses and inventory	58,578	-	48,893	107,471
Unclaimed monies	14,621	-	-	14,621
Permanent Funds - Bullock Endowment	-	-	50,000	50,000
Restricted:				
Security of persons and property	-	-	587,268	587,268
Public health services	-	-	32,143	32,143
Leisure time activities	-	-	402,968	402,968
Community environment	-	-	1,150	1,150
Transportation	-	-	638,270	638,270
Municipal court activities	-	-	154,111	154,111
Committed:				
Capital projects fund	325,404	416,539	333,468	1,075,411
Assigned:				
General government	866,223	-	-	866,223
Unassigned:				
General fund	7,657,871	-	-	7,657,871
Total fund balances	8,922,697	416,539	2,248,271	11,587,507
Total liabilities, deferred inflows of resources and fund balances	\$ 13,597,740	\$ 423,499	\$ 2,657,978	\$ 16,679,217

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position December 31, 2016

Fund balance - total governmental funds		\$	11,587,507
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.			31,655,820
Some receivables are not available to pay for current-period expenditures therefore, related revenues are deferred in the funds:			
Property and other taxes	19,287		
Income taxes	1,638,197		
Intergovernmental	383,163		
Special assessments	136,243		
Charges for services	65,754		
Interest	<u>6,600</u>		
			2,249,244
Internal service funds are used to charge the costs of certain activities such as providing insurance as well as the service center to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.			3,242,299
The internal balance represents the portion of the internal service funds' assets and liabilities that are allocated to the enterprise funds.			(668,723)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:			
Police and fire pension	(456,499)		
Compensated absences payable	<u>(1,027,219)</u>		
			<u>(1,483,718)</u>
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows - pension	3,373,181		
Deferred inflows - pension	(180,856)		
Net pension liability	<u>(12,028,799)</u>		
			<u>(8,836,474)</u>
Net position of governmental activities		\$	<u><u>37,745,955</u></u>

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

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

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Income taxes	\$ 7,244,653	\$ -	\$ -	\$ 7,244,653
Property taxes	2,277,113	-	144,533	2,421,646
Intergovernmental	505,111	-	786,301	1,291,412
Charges for services	1,879,789	-	99,735	1,979,524
Fines, licenses and permits	176,796	-	50,295	227,091
Special assessments	25,398	-	137,915	163,313
Investment earnings	56,289	-	8,876	65,165
Donations	2,885	-	17,325	20,210
Miscellaneous	69,645	1,789	11,398	82,832
Total revenues	<u>12,237,679</u>	<u>1,789</u>	<u>1,256,378</u>	<u>13,495,846</u>
Expenditures				
Security of persons and property	4,866,161	-	240,347	5,106,508
Public health services	-	-	87,827	87,827
Leisure time activities	877,321	-	82,573	959,894
Community environment	1,782,695	-	500	1,783,195
Transportation	-	-	844,330	844,330
General government	1,767,594	-	11,859	1,779,453
Capital outlay	360,942	675,605	469,655	1,506,202
Debt service:				
Principal retirement	-	-	16,027	16,027
Interest and fiscal charges	-	-	19,914	19,914
Total expenditures	<u>9,654,713</u>	<u>675,605</u>	<u>1,773,032</u>	<u>12,103,350</u>
Excess of revenues over (under) expenditures	<u>2,582,966</u>	<u>(673,816)</u>	<u>(516,654)</u>	<u>1,392,496</u>
Other financing sources (uses)				
Transfers in	-	930,819	763,742	1,694,561
Transfers out	(1,694,561)	-	-	(1,694,561)
Total other financing sources (uses)	<u>(1,694,561)</u>	<u>930,819</u>	<u>763,742</u>	<u>-</u>
Net change in fund balance	888,405	257,003	247,088	1,392,496
Fund balance, beginning of year	8,034,292	159,536	2,001,183	10,195,011
Fund balance, end of year	<u>\$ 8,922,697</u>	<u>\$ 416,539</u>	<u>\$ 2,248,271</u>	<u>\$ 11,587,507</u>

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, 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

Net change in fund balances - total governmental funds	\$	1,392,496
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense:		
Capital asset additions	1,593,798	
Current year depreciation	<u>(1,277,420)</u>	316,378
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		(282,864)
Repayment of long-term obligations is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		16,027
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		987,327
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(1,767,442)
Internal service funds are used to charge the costs of certain activities, such as insurance and vehicle maintenance to the individual funds as reported in the Statement of Activities.		(134,844)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		<u>(47,089)</u>
Change in net position of governmental activities	\$	<u>479,989</u>

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

Statement of Net Position Proprietary Funds December 31, 2016

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Stormwater	Total	
Assets					
Current assets:					
Equity in pooled cash and investments	\$ 1,093,278	\$ 1,277,059	\$ 217,801	\$ 2,588,138	\$ 134,915
Receivables:					
Accounts	80,960	154,094	30,508	265,562	1,453
Special assessments	21,135	36,115	6,488	63,738	-
Interest	926	1,021	-	1,947	-
Prepaid expenses	2,821	1,944	162	4,927	689
Inventory	14,508	1,244	-	15,752	26,398
Total current assets	1,213,628	1,471,477	254,959	2,940,064	163,455
Noncurrent assets:					
Nondepreciable capital assets	283,820	-	-	283,820	25,840
Depreciable capital assets (net of accumulated depreciation)	1,041,473	1,031,636	-	2,073,109	3,207,293
Total noncurrent assets	1,325,293	1,031,636	-	2,356,929	3,233,133
Total assets	2,538,921	2,503,113	254,959	5,296,993	3,396,588
Deferred Outflows of Resources					
Pensions	178,390	110,717	59,828	348,935	75,471
Total deferred outflows of resources	178,390	110,717	59,828	348,935	75,471
Liabilities					
Current Liabilities:					
Accounts payable	170,425	180,997	-	351,422	8,467
Contracts payable	632	632	10,592	11,856	-
Accrued wages payable	5,819	3,980	2,379	12,178	2,545
Intergovernmental payable	8,491	244,776	1,920	255,187	2,396
Compensated absences payable	56,753	38,116	14,516	109,385	7,981
Total current liabilities	242,120	468,501	29,407	740,028	21,389
Noncurrent liabilities:					
Net pension liability	466,949	289,811	156,605	913,365	197,550
Compensated absences payable	44,326	29,770	11,337	85,433	6,233
Total noncurrent liabilities	511,275	319,581	167,942	998,798	203,783
Total liabilities	753,395	788,082	197,349	1,738,826	225,172
Deferred Inflows of Resources					
Pensions	10,844	6,730	3,637	21,211	4,588
Total deferred inflows of resources	10,844	6,730	3,637	21,211	4,588
Net Position					
Net investment in capital assets	1,325,293	1,031,636	-	2,356,929	3,233,133
Unrestricted	627,779	787,382	113,801	1,528,962	9,166
Total net position	\$ 1,953,072	\$ 1,819,018	\$ 113,801	\$ 3,885,891	\$ 3,242,299
Adjustment to reflect consolidation of internal service fund activities related to enterprise funds				\$ 668,723	
Total net position from above				3,885,891	
				<u>\$ 4,554,614</u>	

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

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

	Enterprise Funds				Internal
	Water	Sewer	Stormwater	Total	Service Fund
<i>Operating Revenues</i>					
Charges for services	\$ 747,831	\$ 1,283,955	\$ 270,446	\$ 2,302,232	\$ 586,052
Fines, licenses and permits	-	60	-	60	-
Special assessments	23,860	32,650	6,279	62,789	-
Miscellaneous	317	198	108	623	-
Total operating revenues	<u>772,008</u>	<u>1,316,863</u>	<u>276,833</u>	<u>2,365,704</u>	<u>586,052</u>
<i>Operating Expenses</i>					
Personnel services	530,656	358,515	178,274	1,067,445	233,012
Contractual services	309,488	1,082,591	39,581	1,431,660	42,128
Supplies and materials	137,489	7,619	5,717	150,825	263,575
Claims	-	-	-	-	10,195
Miscellaneous	21,879	1,198	-	23,077	388
Depreciation	85,613	41,895	-	127,508	211,235
Total operating expenses	<u>1,085,125</u>	<u>1,491,818</u>	<u>223,572</u>	<u>2,800,515</u>	<u>760,533</u>
Operating income (loss)	<u>(313,117)</u>	<u>(174,955)</u>	<u>53,261</u>	<u>(434,811)</u>	<u>(174,481)</u>
<i>Non-operating revenues</i>					
Investment earnings	4,785	5,518	-	10,303	-
Loss on disposal of assets	-	-	-	-	-
Change in net position	(308,332)	(169,437)	53,261	(424,508)	(174,481)
Net position, beginning of year	<u>2,261,404</u>	<u>1,988,455</u>	<u>60,540</u>		<u>3,416,780</u>
Net position, end of year	<u>\$ 1,953,072</u>	<u>\$ 1,819,018</u>	<u>\$ 113,801</u>		<u>\$ 3,242,299</u>
Adjustment to reflect consolidation of internal service fund activities related to enterprise funds				(38,345)	
Change in net position of business-type activities				<u>\$ (462,853)</u>	

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

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

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Stormwater	Total	
<i>Cash flows from operating activities</i>					
Cash received from customers	\$ 916,861	\$ 1,531,620	\$ 281,969	\$ 2,730,450	\$ -
Cash received from quasi-external transactions from other funds	-	-	-	-	584,602
Cash received from other sources	317	198	108	623	-
Cash payments for employee services and benefits	(502,130)	(334,128)	(176,079)	(1,012,337)	(240,754)
Cash payments for insurance claims	-	-	-	-	(10,195)
Cash payments to suppliers for goods and services	(450,198)	(1,099,225)	(34,992)	(1,584,415)	(299,613)
Cash payments for other operating expenses	(20,568)	(901)	-	(21,469)	(389)
Net cash provided (used) by operating activities	<u>(55,718)</u>	<u>97,564</u>	<u>71,006</u>	<u>112,852</u>	<u>33,651</u>
<i>Cash flows from capital and related financing activities</i>					
Acquisition of capital assets	(178,352)	(86,840)	-	(265,192)	(25,297)
Principal paid on notes	-	(12,929)	-	(12,929)	-
Net cash used for capital and related financing activities	<u>(178,352)</u>	<u>(99,769)</u>	<u>-</u>	<u>(278,121)</u>	<u>(25,297)</u>
<i>Cash flows from investing activities</i>					
Market gain (loss) on investments	(2,504)	(2,763)	-	(5,267)	-
Proceeds from earnings on investments	<u>7,289</u>	<u>8,281</u>	<u>-</u>	<u>15,570</u>	<u>-</u>
Net cash provided by investing activities	<u>4,785</u>	<u>5,518</u>	<u>-</u>	<u>10,303</u>	<u>-</u>
Net increase (decrease) in cash and investments	(229,285)	3,313	71,006	(154,966)	8,354
Equity in pooled cash and investments, beginning of year	<u>1,322,563</u>	<u>1,273,746</u>	<u>146,795</u>	<u>2,743,104</u>	<u>126,561</u>
Equity in pooled cash and investments, end of year	<u>\$ 1,093,278</u>	<u>\$ 1,277,059</u>	<u>\$ 217,801</u>	<u>\$ 2,588,138</u>	<u>\$ 134,915</u>
<i>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</i>					
Operating income (loss)	\$ (313,117)	\$ (174,955)	\$ 53,261	\$ (434,811)	\$ (174,481)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	85,613	41,896	-	127,509	211,235
Changes in assets and liabilities:					
Accounts receivable	(5,356)	34,605	5,244	34,493	539
Prepaid expenses	9	49	30	88	(5)
Inventory	(3,337)	90	-	(3,247)	(4,313)
Deferred outflows of resources - pension	(116,797)	(72,711)	(39,025)	(228,533)	(49,638)
Accounts payable	159,105	180,997	-	340,102	6,763
Contracts payable	61	61	10,307	10,429	-
Accrued wages payable	2,005	1,444	980	4,429	893
Intergovernmental payable	(9,248)	(15,365)	(3,202)	(27,815)	(4,204)
Net pension liability	130,788	82,386	43,065	256,239	56,556
Compensated absences payable	9,618	15,981	(1,296)	24,303	(11,805)
Deferred inflows of resources - pensions	<u>4,938</u>	<u>3,086</u>	<u>1,642</u>	<u>9,666</u>	<u>2,111</u>
Net cash provided (used) by operating activities	<u>\$ (55,718)</u>	<u>\$ 97,564</u>	<u>\$ 71,006</u>	<u>\$ 112,852</u>	<u>\$ 33,651</u>

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

Statement of Assets and Liabilities

Agency Funds

December 31, 2016

	Martin Luther King Jr. Community Recognition Fund	Municipal Court Fund
<i>Assets</i>		
Equity in pooled cash and investments	\$ 7,507	\$ -
Cash in segregated accounts	-	31,993
Total assets	<u>\$ 7,507</u>	<u>\$ 31,993</u>
<i>Liabilities</i>		
Deposits held and due to others	7,507	31,993
Total liabilities	<u>\$ 7,507</u>	<u>\$ 31,993</u>

See accompanying notes to the basic financial statements.

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Oakwood, Ohio, (the “City”) is a home rule municipal corporation operating under the laws of the State of Ohio and under its own charter. The City was incorporated on July 29, 1907. A charter was first adopted on July 1, 1960.

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

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity’s statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity’s statements to be misleading or incomplete. No separate government units meet the criteria for inclusion as a component unit.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which are normally supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and the business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (a) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, 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.

The *Capital Improvement Fund* accounts for the construction of approved public improvements and services from general governmental resources.

The City reports the following major enterprise funds:

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

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Sewer Fund* accounts for the provisions of sanitary sewer service to the residents and commercial users located within the city.

The *Stormwater Fund* is not a major enterprise fund; however, it is the only other enterprise fund. The fund accounts for all activities associated with managing stormwater runoff within the city.

Additionally, the City reports the following fund types:

The *Internal Service Funds* account for the financing of goods or services provided by one department to other departments in the City. These goods and services include vehicle maintenance and payment of self-insurance vision program deductibles.

The *Agency Funds* are used to account for the collection and disbursement of monies by the City on behalf of other individuals or entities. The City has two agency fiduciary funds. The Martin Luther King Jr. Community Recognition Fund accounts for funds related to the annual Dr. Martin Luther King Jr. holiday celebration event, jointly sponsored by the cities of Oakwood and Kettering. The Municipal Court Fund accounts for activity relating to the Oakwood Municipal Court.

Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured and the basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus; however, they use the accrual basis of accounting to recognize assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough after to pay liabilities of the current period. For this purpose, the City considers revenues available if they

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, income taxes and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds include the cost of these goods and services provided. Operating expenses of the enterprise funds include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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". The internal balances line item comprises the allocation of the business-type activities interest in the internal service funds that are included within the governmental activities.

Equity in Pooled Cash and Investments

Investments are reported at fair value, which is based on quoted market prices. For investments in open-end mutual funds, fair value is determined by the fund's share price. Investments with an original maturity of three months or less at the time of purchase, and investments of the cash management pool are reported as cash equivalents on the financial statements. In 2016 the City implemented GASB Statement No. 72, "Fair Value Measurement and Application."

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventories consist of consumable supplies and are stated at cost, using the first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenses / expenditures when consumed rather than purchased.

Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses / expenditures when consumed rather than purchased.

Long-Term Obligations

In the government-wide and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Capital Assets

Capital assets include land, land improvements, buildings, improvements, vehicles, machinery, equipment, infrastructure, construction in progress and all other assets used in operations and that have initial useful lives expending beyond a single reporting period. Infrastructure is defined as long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements and are not depreciated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized. All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Vehicles and equipment	5-25 years
Buildings and land improvements	10-50 years
Infrastructure	15-50 years

Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from government service. All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee resignations and retirements.

Fund Balance Classifications

The following classifications of fund balances are used by the City:

- *Nonspendable fund balance* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, donors, and higher levels of government), through constitutional provisions, or by enabling legislation;
- *Committed fund balance* – amounts committed to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- *Assigned fund balance* – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- *Unassigned fund balance* – amounts that are available for any purpose; positive amounts are reported in the general fund only.

The City applies restricted resources when an expense is incurred for which both restricted and unrestricted (committed, assigned and unassigned) 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 classification could be used.

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension plans report investments at fair value. In 2016 the City implemented 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 67 and 68.”

Net Position

Net position is reported as restricted when there are limitations imposed on their 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Of the City’s \$1,883,295 in restricted net position, none was restricted by enabling legislation.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants and Other Intergovernmental Revenues

All reimbursement-type grants are recorded as intergovernmental receivables and revenues or deferred inflows of resources when the related expenditures are incurred.

CITY OF OAKWOOD, OHIO

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions and Transfers

During the course of normal operations, the City has numerous transactions among funds, most of which are in the form of transfers used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The accompanying financial statements generally reflect such transactions as transfers, with the exception of the internal service fund which is used to account for various supplies and services which are then charged back to the appropriate fund on an “as used” basis. The internal service fund records such charges as operating revenues; all other City funds record payments to the internal service fund as operating expenditures.

NOTE 2 – POOLED CASH AND INVESTMENTS

The City maintains a cash and investments pool that is available for use by all funds. Money for all funds, including proprietary funds, is maintained in this pool. Individual fund integrity is maintained through the City’s records. Each fund’s interest in the pooled bank account is presented as “equity in pooled cash and investments” on the financial statements.

Investment earnings are distributed to the funds according to charter and statutory requirements. Investment earnings reported in the statement of activities for 2016 amounted to \$71,588. This amount includes a decrease of \$31,472 to reflect the market value of the City’s investments at December 31, 2016.

The provisions of the Charter and Codified Ordinances of the City and the Ohio Revised Code govern the investment and deposit of City monies. In accordance with these provisions, only financial institutions located in Ohio and primary securities dealers are eligible to hold public deposits. The provisions also permit the City to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer’s investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof. The City may also enter into repurchase agreements with any eligible depository for a period not exceeding five years.

Public depositories must give security for all public funds on deposit. According to the City’s Deposit and Investment Policy, these institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the face value of which is at least 105 percent of the total value of public monies on deposit at the institution **that are not covered by FDIC**.

CITY OF OAKWOOD, OHIO

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

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Deposits: At year end, the carrying amount of the City's cash on hand was \$1,375, the City's deposits were \$5,575,569 and the bank balance was \$5,737,858. Of the bank balance, \$533,336 was covered by federal deposit insurance; the remaining \$5,204,522 of the City's bank balance was exposed to custodial risk and was collateralized with securities held by the pledging financial institutions trust department or agent but not in the City's name, per Ohio Revised Code Section 135.181. The City has no investment policy for custodial credit risk.

Investments: At year-end, the City had the following investments:

	Fair Value	Investment Maturities (in Years)		
		Less than One Year	One to Five Years	Five to Seven Years
Federal Home Loan Mortgage Corp	\$ 4,231,622	\$ -	\$ 4,231,622	\$ -
Federal National Mortgage Association	2,738,677	-	2,738,677	-
Federal Home Loan Bank Step	1,496,407		1,496,407	
Total	<u>\$ 8,466,706</u>	<u>\$ -</u>	<u>\$ 8,466,706</u>	<u>\$ -</u>

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

Interest Rate Risk – The City's investment policy states that the maximum maturity for any investment is limited to a final stated maturity of seven years, an expected call of seven years, or an expected average life of seven years, where the average life is estimated by nationally recognized firms independent of the dealer selling the security to the City.

Credit Risk – The City's investment policy states that investment in corporate entities must have a debt rating of AA or better by Standard & Poors' or Moody's rating service. The City's investments in US government agencies all have a rating of AA+ by Standard & Poors' and AAA by Moody's.

Concentration of Credit Risk – The City's investment policy does not place any limit on investments in any single issuer. Five percent or more of the City's investments are in the following:

<u>Investment</u>	<u>Percent</u>
Federal Home Loan Mortgage Corp	49.98%
Federal National Mortgage Association	32.35%
Federal Home Loan Bank	17.67%

CITY OF OAKWOOD, OHIO

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

NOTE 3 – RECEIVABLES AND PAYABLES

Income Tax

The City levies a municipal income tax of two and one-half percent on substantially all income earned within the City. Additional increases in the income tax rate require voter approval. City residents pay City income tax on income earned outside the City; however, a credit is allowed for income taxes paid to other municipalities. Filing is mandatory for all residents of the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file an annual declaration.

Property Taxes

Property taxes include amounts levied against all real, public utility and tangible (used in business) personal property located in the City.

Real property taxes are levied each December 31st on the assessed value listed as of the prior December 31st. Assessed values are established by State law at 35% of true value. Property market values are required to be updated every three years and revalued every six years. A revaluation was completed in 2014.

The property tax calendar is as follows:

Levy date	December 31, 2015
Lien date	December 31, 2015
Tax bill mailed	January 20, 2016
First installment payment due	February 19, 2016
Second installment payment due	July 15, 2016

The assessed values for the City at December 31, 2015 were as follows:

	<u>Assessed Value</u>
Real Estate	\$293,816,440
Tangible Personal Property	<u>2,142,360</u>
Total	<u>\$295,958,800</u>

The County Treasurer collects property taxes on behalf of all taxing districts including the City of Oakwood. The County periodically remits to the City its portion of the taxes collected. Property taxes may be paid on either an annual or semiannual basis.

CITY OF OAKWOOD, OHIO

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

NOTE 3 – RECEIVABLES AND PAYABLES (Continued)

Receivables / Deferred Inflows of Resources

Governmental funds report deferred inflows of resources in connection with receivable for revenues that are not considered available to liquidate liabilities of the current period. The balances at December 31, 2016 were:

	Governmental Funds	
	Receivables	Deferred Inflows of Resources
Property taxes	\$ 2,138,789	\$ 2,138,789
Income taxes	2,396,401	1,638,197
Accounts receivable	185,005	65,754
Special assessments	136,243	136,243
Interest	9,725	6,600
Intergovernmental	<u>424,486</u>	<u>383,162</u>
	<u>\$ 5,290,649</u>	<u>\$ 4,368,745</u>

Accounts receivable consists of primarily charges for refuse services, sidewalk repair and emergency medical transportation services provided by the City of Oakwood. Special assessments consist of mainly charges for street lighting. Intergovernmental receivables are amounts due to the City from other governmental units, primarily estate and gasoline taxes.

Payables

The balances at December 31, 2016 were:

Governmental Funds Payables	
Accounts payable	\$ 32,951
Contracts payable	99,591
Accrued wages	106,364
Intergovernmental	<u>132,023</u>
	<u>\$ 370,929</u>

The payables and accrued liabilities were primarily for materials and services, payroll and payroll related liabilities that were expensed but the funds had not been disbursed, both due to the normal lag in processing such transactions at year-end.

CITY OF OAKWOOD, OHIO

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

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
<u><i>Governmental Activities</i></u>				
Non-depreciable capital assets:				
Land	\$ 4,672,504	\$ 151,660	\$ -	\$ 4,824,164
Construction in progress	-	360,942	-	360,942
Non-depreciable capital assets	<u>4,672,504</u>	<u>512,602</u>	<u>-</u>	<u>5,185,106</u>
Depreciable capital assets:				
Buildings	14,916,209	190,681	-	15,106,890
Land Improvements	2,041,284	43,908	(153,000)	1,932,192
Equipment	2,068,141	180,707	(39,352)	2,209,496
Vehicles	2,468,857	165,302	(32,549)	2,601,610
Infrastructure	34,244,625	525,893	-	34,770,518
Depreciable capital assets	<u>55,739,116</u>	<u>1,106,491</u>	<u>(224,901)</u>	<u>56,620,706</u>
Less accumulated depreciation:				
Buildings	(5,932,361)	(505,392)	-	(6,437,753)
Land Improvements	(870,230)	(88,762)	153,000	(805,992)
Equipment	(1,807,361)	(88,855)	39,352	(1,856,864)
Vehicles	(2,312,894)	(73,544)	32,549	(2,353,889)
Infrastructure	(14,730,260)	(732,101)	-	(15,462,361)
Accumulated depreciation	<u>(25,653,106)</u>	<u>(1,488,654)</u>	<u>224,901</u>	<u>(26,916,859)</u>
Depreciable capital assets, net	<u>30,086,010</u>	<u>(382,163)</u>	<u>-</u>	<u>29,703,847</u>
Governmental activities capital assets, net	<u>\$ 34,758,514</u>	<u>\$ 130,439</u>	<u>\$ -</u>	<u>\$ 34,888,953</u>

Depreciation expense was charged to governmental functions as follows:

Public works	\$ 599,030
General government	536,825
Security of persons and property	72,824
Community environment	33,623
Transportation	19,154
Leisure time activities	15,963
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>211,235</u>
Total depreciation expense - governmental activities	<u>\$ 1,488,654</u>

CITY OF OAKWOOD, OHIO

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

NOTE 4 – CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Deletions	Ending Balance
<i><u>Business-type Activities</u></i>				
Non-depreciable capital assets:				
Land	\$ 283,820	\$ -	\$ -	\$ 283,820
Depreciable capital assets:				
Buildings	809,769	-	-	809,769
Land Improvements	127,534	-	-	127,534
Equipment	2,677,453	190,839	-	2,868,292
Vehicles	373,892	74,352	(33,660)	414,584
Infrastructure	4,670,212	-	-	4,670,212
Depreciable capital assets	8,658,860	265,191	(33,660)	8,890,391
Less accumulated depreciation:				
Buildings	(549,031)	(23,074)	-	(572,105)
Land Improvements	(82,701)	(5,327)	-	(88,028)
Equipment	(2,518,885)	(42,643)	-	(2,561,528)
Vehicles	(373,892)	(3,534)	33,660	(343,766)
Infrastructure	(3,198,925)	(52,930)	-	(3,251,855)
Accumulated depreciation	(6,723,434)	(127,508)	33,660	(6,817,282)
Depreciable capital assets, net	1,935,426	137,683	-	2,073,109
Business-type Activities capital assets, net	<u>\$ 2,219,246</u>	<u>\$ 137,683</u>	<u>\$ -</u>	<u>\$ 2,356,929</u>

NOTE 5 – 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.

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

Ohio Public Employees Retirement System (OPERS)

OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Pension Plan (TP), the Combined Plan (CP) and the Member-Directed Plan (MD). All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. While members may elect the CP and MD, substantially all employees are in the TP; therefore, the following disclosure focuses on the TP.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the TP and CP. Members of the MD do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description and Plan Benefits - The TP is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary. The pension benefits are funded by both member and employer contributions, and investment earnings on those contributions.

The CP is a defined benefit plan with elements of a defined contribution plan. Under the CP, members earn a formula benefit similar to, but at a factor less than, the TP benefit. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings (or losses) on those contributions. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

The MD is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings (or losses) on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Upon retirement or termination, the member may choose a defined contribution retirement distribution, or may elect to use his/her defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

The Board of Trustees, pursuant to Chapter 145, has elected to maintain funds to provide health care coverage to eligible TP and CP retirees and survivors of members. Health care coverage does not vest and is not required under Chapter 145. As a result, coverage may be reduced or eliminated at the discretion of the Board.

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. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

Benefits in the TP are calculated on the basis of age, final average salary, and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 5 years of service credit or at age 55 with 25 or more years of service credit. Members in transition Group C are eligible for retirement at age 57 with 25 years of

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. The final average salary 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 an 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 benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Benefits in the CP consist of both an age and service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary, and years of service. Eligibility regarding age and years of service in the CP is the same as the TP. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's final average salary for the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions, plus or minus any investment gains or losses on those contributions.

MD defined contribution plan benefits are established in the plan documents, which may be amended by the Board. MD and CP members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the CP was discussed above. MD participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the MD consists of the member's contributions, vested employer contributions and investment gains and losses resulting from the member's investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of the entire account balance, net of taxes withheld, or a combination of these options.

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - The OPERS funding policy provides for periodic employee and employer contributions to all three plans at rates established by the Board, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of OPERS' external actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the yearended December 31, 2016. Plan members were required to contribute 10% of covered payroll. The City's contribution rate was 14% of covered payroll. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$451,051 for 2016. Of this amount, \$42,948 is reported as an intergovernmental payable.

Ohio Police & Fire Pension Fund (OP&F)

OP&F is a cost-sharing, multiple-employer defined benefit pension, which provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefit provisions is provided by state statute per 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 OPF 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.

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 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.

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

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 provides statutory authority for employee and employer contributions. During 2016, plan members were required to contribute 12.25% of their annual covered salary. During 2016, the City was required to contribute 19.50% of annual covered salary. The City's contractually required contribution to OP&F was \$536,276 for 2016. Of this amount \$40,662 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability of the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2016, the specific liability of the City was \$456,499 payable in semi-annual payments through the year 2035.

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	\$ 5,119,991	\$ 8,019,723	\$ 13,139,714
Proportion of the Net Pension Liability	0.029559%	0.124664%	
Pension Expense	\$ 237,958	\$ 542,157	\$ 780,115

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of resources:			
Net difference between projected and actual earnings on pension plan investments	\$ 1,504,957	\$ 1,305,303	\$ 2,810,260
City contributions subsequent to the measurement date	<u>451,051</u>	<u>536,276</u>	<u>987,327</u>
Total Deferred Outflows of Resources	<u>\$ 1,956,008</u>	<u>\$ 1,841,579</u>	<u>\$ 3,797,587</u>
Deferred Inflows of resources:			
Differences between expected and actual experience	\$ 98,928	\$ 22,519	\$ 121,447
Changes in employer proportion and differences between contributions and proportionate share of contributions	<u>19,974</u>	<u>65,234</u>	<u>85,208</u>
	<u>\$ 118,902</u>	<u>\$ 87,753</u>	<u>\$ 206,655</u>

\$987,327 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ending December 31:</u>	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2017	\$ 319,933	\$ 326,814	\$ 646,747
2018	343,997	326,814	670,811
2019	381,554	326,814	708,368
2020	340,571	257,229	597,800
2021	-	(16,908)	(16,908)
Thereafter	-	(3,213)	(3,213)
Total	<u>\$ 1,386,055</u>	<u>\$ 1,217,550</u>	<u>\$ 2,603,605</u>

Actuarial Assumptions - OPERS

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75%
Future Salary Increases, including inflation	4.25% - 10.05% including wage inflation
COLA or Ad Hoc COLA	3.00% simple
Investment Rate of Return	8.00%
Actuarial Cost Method	Individual Entry Age

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% 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% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used. The most recent experience study was completed for the five year period ended December 31, 2010. The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40% 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>	<u>4.59%</u>
Total	<u>100.00%</u>	<u>5.27%</u>

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

The discount rate used to measure the total pension liability was 8% for the TP. 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 for the TP was applied to all periods of projected benefit payments to determine the total pension liability.

The following table represents the City's proportionate share of the net pension liability at the 8% discount rate as well as the sensitivity to a 1% increase and a 1% decrease in the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Decrease (9.00%)
City's proportionate share of the net pension liability	\$ 8,157,397	\$ 5,119,991	\$ 2,558,036

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:

Actual Cost Method	Entry Age Normal
Investment Rate of Return	8.25%
Projected Salary Increases	4.25% - 11.00%
Payroll Increases	3.75%
Inflation Assumptions	3.25%
Cost of Living Adjustments	2.60% and 3.00%

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

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00%	7.80%
Non-US Equity	16.00%	8.00%
Core Fixed Income*	20.00%	5.35%
Global Inflation Protected*	20.00%	4.73%
High Yield	15.00%	7.21%
Real Estate	12.00%	7.43%
Private Markets	8.00%	10.73%
Timber	5.00%	7.35%
Master Limited Partnerships	<u>8.00%</u>	10.75%
Total	<u>120.00%</u>	

* levered 2x

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

The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to

CITY OF OAKWOOD, OHIO

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

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%. 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.

The following table represents the City's proportionate share of the net pension liability at the 8.25% discount rate as well as the sensitivity to a 1% increase and a 1% decrease in the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Decrease (9.00%)
City's proportionate share of the net pension liability \$	10,576,940	\$ 8,019,723	\$ 5,853,508

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 5, both the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F) provide post retirement health care coverage, which meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. For both systems, the Ohio Revised Code (ORC) permits, but does not mandate, OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in the ORC Chapter 145 for OPERS and Chapter 742 for OP&F.

Ohio Public Employees Retirement System

OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO), all of which are described in note 5. OPERS maintains a cost-sharing multiple employer defined benefit post employment healthcare plan, which provides a medical plan, prescription drug program and Medicare Part B premium reimbursement, to age and service retirees with 10 or more years of qualifying Ohio service credit of both the TP and CO. Members of the MD do not qualify for ancillary benefits, including post employment health care coverage. Health care coverage for disability recipients and qualified survivor benefit recipients is available.

CITY OF OAKWOOD, OHIO

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

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The ORC 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 is set aside for the funding of post retirement health care benefits. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 14.0%. The ORC states that the employer contribution may not exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS post employment healthcare plan was established and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2016, the employer contribution allocated to the health care plan was 2.0% for both the TP and CO. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions to OPERS for the healthcare plan for the years ending December 31, 2016, 2015 and 2014 were \$79,738, \$77,906 and \$77,617 equal to the required contributions for the year. Changes to the health care plan were adopted in 2012 with a transition plan beginning in 2014. Because of these changes and the recent passage of pension legislation, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund

OP&F sponsors a cost-sharing multiple-employer defined post retirement healthcare 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 dependents.

The ORC provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OP&F. A portion of each employer's contribution is set aside for the funding of post retirement health care benefits. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5%. The ORC states that the employer contribution may not exceed 19.5%. 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 Revenue Code 401(h)

CITY OF OAKWOOD, OHIO

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

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

account, both of which are within the defined benefit pension plan, under the authority granted by the ORC 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 healthcare benefits. For the year ended December 31, 2016, the employer contribution allocated to the healthcare plan was 0.5% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Sections 115 and 401(h). The OP&F board of trustees is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions to OP&F for the healthcare plan for the years ending December 31, 2016, 2015 and 2014 were \$14,294, \$14,271 and \$14,056.

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

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 leave for the City amounted to \$445,444 at December 31, 2016.

Accumulated Unpaid Sick Leave

City employees hired before December 31, 2011 and all union employees earn sick leave at a rate of 10 hours per month. Non-union city employees hired after December 31, 2011 earn sick leave at a rate of 6.67 hours per month. A maximum of 150 days of sick leave can be carried forward from year to year.

Any employee hired before December 31, 2011 and all union employees who retire under the provisions of the Ohio Public Employees Retirement System or the Ohio Police and Fire Pension Fund, or any other plan of the State of Ohio or the City of Oakwood, will be compensated for accumulated sick leave of sixty (60) days or more, upon the basis of one day's pay for every three (3) days sick leave. If an employee has accumulated one hundred twenty

CITY OF OAKWOOD, OHIO

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

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

(120) days of sick leave or more, the employee or his beneficiary will be compensated at retirement or death at one day's pay for each two (2) days of sick leave, on the same terms as outlined above, but in place of the formula outlined above.

Non-union city employees hired after December 31, 2011 and who retire under the provisions of the Ohio Public Employees Retirement System or the Ohio Police and Fire Pension Fund, or any other plan of the State of Ohio or the City of Oakwood, will be compensated for accumulated sick leave of sixty (60) days or more, upon the basis of one day's pay for every three (3) days sick leave.

The total obligation for the sick leave accrual for the City amounted to \$790,807 at December 31, 2016.

NOTE 7 – OTHER COMMITMENTS

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General fund	\$ 266,786
Capital improvement fund	103,253
Other governmental funds	116,237
Internal Service Funds	9,915
Enterprise Funds	<u>306,508</u>
Total	<u>\$ 802,699</u>

NOTE 8—LONG-TERM OBLIGATIONS AND OTHER FINANCING ARRANGEMENTS

Legal Debt Margin

The City Charter provides that the total net debt of the municipal corporation, whether or not approved by the electors, shall not exceed 7.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of the municipal corporation cannot exceed 2.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. As of December 31, 2016, the City had legal debt margin for total debt of \$22,196,910 and a legal debt margin for unvoted debt of \$7,398,970.

CITY OF OAKWOOD, OHIO

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

NOTE 8—LONG-TERM OBLIGATIONS AND OTHER FINANCING ARRANGEMENTS (continued)

Long-term Obligations

The following is a summary of long-term liability activity for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<u>Governmental Activities:</u>					
Police and Fire Pension	\$ 472,526	\$ -	\$ 16,027	\$ 456,499	\$ 16,716
Compensated Absences Payable	<u>1,006,149</u>	<u>340,670</u>	<u>305,386</u>	<u>1,041,433</u>	<u>584,735</u>
Total	<u>\$ 1,478,675</u>	<u>\$ 340,670</u>	<u>\$ 321,413</u>	<u>\$ 1,497,932</u>	<u>\$ 601,451</u>
<u>Business-Type Activities:</u>					
OPWC Loan Payable	\$ 12,929	\$ -	\$ 12,929	\$ -	\$ -
Compensated Absences Payable	<u>170,514</u>	<u>234,689</u>	<u>210,385</u>	<u>194,818</u>	<u>109,385</u>
Total	<u>\$ 183,443</u>	<u>\$ 234,689</u>	<u>\$ 223,314</u>	<u>\$ 194,818</u>	<u>\$ 109,385</u>
<u>Net Pension Liability:</u>					
<u>Governmental Activities:</u>					
OPERS	\$ 2,938,296	\$ 1,268,330	\$ -	\$ 4,206,626	
OP&F	<u>6,537,381</u>	<u>1,482,342</u>	<u>-</u>	<u>8,019,723</u>	
Total	<u>\$ 9,475,677</u>	<u>\$ 2,750,672</u>	<u>\$ -</u>	<u>\$ 12,226,349</u>	
<u>Business-Type Activities:</u>					
OPERS	<u>\$ 657,126</u>	<u>\$ 256,239</u>	<u>\$ -</u>	<u>\$ 913,365</u>	

In 1969, the City entered into an agreement with the State of Ohio to fund the unfunded pension costs associated with police and fire service. The original obligation was \$718,825 and is being repaid through local property tax revenues. In 1996, the City received an interest free loan through the State of Ohio's Public Works Commission Issue II program in the amount of \$517,177. The proceeds were used to improve the City's sanitary sewer system. Repayment is being made from operating revenues of the sewer fund. The loan was paid off during 2016.

Compensated absences will be paid from the fund in which the employee who has earned the leave is paid.

CITY OF OAKWOOD, OHIO

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

NOTE 8—LONG-TERM OBLIGATIONS AND OTHER FINANCING ARRANGEMENTS (continued)

Principal and interest requirements to retire the city's long-term obligations outstanding at December 31, 2016 were:

Year Ending December 31,	Police and Fire Pension	
	Principal	Interest
2017	16,716	19,225
2018	17,434	18,507
2019	18,182	17,759
2020	18,964	16,978
2021	19,778	16,163
2022-2026	112,386	67,320
2027-2031	138,687	41,019
2032-2035	<u>114,352</u>	<u>9,824</u>
Total	<u>\$ 456,499</u>	<u>\$ 206,795</u>

NOTE 9 – TRANSFERS

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

<u>Fund</u>	<u>Transfers-in</u>	<u>Transfers-out</u>
General	\$ -	\$ 1,694,561
Capital improvement	\$ 930,819	\$ -
Other governmental	<u>763,742</u>	<u>-</u>
Total transfers	<u>\$ 1,694,561</u>	<u>\$ 1,694,561</u>

All interfund transfers are routine in nature and are to subsidize the operations of the applicable fund.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City secures general liability, property and automobile coverage through the Ohio Plan Risk Management, Inc. (OPRM). This plan does not operate as a risk pool, but provides insurance protection through reinsurance treaties. The plan retains 50% of the premiums and losses on the first \$250,000 of the casualty treaty, 30% of the first \$1,000,000 property treaty and a complementary excess layer within the

CITY OF OAKWOOD, OHIO

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

NOTE 10 – RISK MANAGEMENT (continued)

property quota share treaty that will reimburse the OPRM 30% of the loss value that exceeds \$200,000. The City pays an annual premium to OPRM for this coverage. Insurance will cover up to the limits as stated below:

	Per Occurrence	Annual Aggregate	Deductible
General liability	\$ 6,000,000	\$ 8,000,000	\$ 1,000
Employers liability	\$ 6,000,000	\$ 6,000,000	N/A
Employee benefits liability	\$ 6,000,000	\$ 8,000,000	N/A
Law enforcement officers liability	\$ 6,000,000	\$ 8,000,000	\$ 2,500
Public official liability	\$ 6,000,000	\$ 8,000,000	\$ 2,500
Automobile liability	\$ 6,000,000	N/A	Comprehensive - \$500 Collision - \$1,000

There were no reductions in insurance coverage during the year in any category of risk. Settled claims did not exceed insurance coverage in each of the past three years.

The City pays the State Workers' Compensation System a premium based on salaries paid. The City also provides medical, dental, vision and life insurance to all full-time employees. In 2016, the City paid approximately 90% of the premiums for medical coverage, approximately 80% of the premiums for dental insurance, and 100% of the premiums for life insurance. The City is self-insured for vision insurance. Vision payments were \$10,195, \$9,362 and \$9,485 for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 11 – CONTINGENT LIABILITIES

Amounts received or receivables from grant agencies are subject to audit and adjustment by grantor agencies, principally the Federal or State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is named in a variety of lawsuits in the course of its normal governmental operations. Liability, if any, which might result from these proceedings would not, in the opinion of management and legal counsel, have a material effect on the position of the City.

CITY OF OAKWOOD, OHIO

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

NOTE 12 – CONTINGENT LIABILITIES

For fiscal year 2016, the City has implemented 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" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the City.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the City.





Required Supplementary Information

CITY OF OAKWOOD, OHIO

Schedule of The City's Proportionate Share of the Net Pension Liability Last Three Fiscal Years (1)

		<u>2016</u>		<u>2015</u>		<u>2014</u>
<i>Ohio Public Employees Retirement System</i>						
City's proportion of the net pension liability		0.029559%		0.029810%		0.029810%
City's proportionate share of the net pension liability	\$	5,119,991	\$	3,595,419	\$	3,514,211
City's covered-employee payroll	\$	3,758,758	\$	3,891,075	\$	3,666,814
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		136.21%		92.40%		95.84%
Plan fiduciary net position as a percentage of the total pension liability		81.08%		86.45%		86.36%
<i>Ohio Police & Fire Pension Fund</i>						
City's proportion of the net pension liability		0.124664%		0.126194%		0.126194%
City's proportionate share of the net pension liability	\$	8,019,723	\$	6,537,381	\$	6,146,049
City's covered-employee payroll	\$	2,822,505	\$	2,799,400	\$	2,779,547
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		284.13%		233.53%		221.12%
Plan fiduciary net position as a percentage of the total pension liability		66.77%		72.20%		73.00%

(1) Information prior to 2014 is unavailable

CITY OF OAKWOOD, OHIO

Schedule of The City's Contributions

Last Three Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Ohio Public Employees Retirement System</i>			
Contractually required contributions	\$ 451,051	\$ 466,929	\$ 440,018
Contributions in relation to the contractually required contributions	<u>451,051</u>	<u>466,929</u>	<u>440,018</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,758,758	\$ 3,891,075	\$ 3,666,814
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%
 <i>Ohio Police & Fire Pension Fund</i>			
Contractually required contributions	\$ 536,276	\$ 531,886	\$ 528,114
Contributions in relation to the contractually required contributions	<u>536,276</u>	<u>531,886</u>	<u>528,114</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,822,505	\$ 2,799,400	\$ 2,779,547
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%

(1) Information prior to 2014 is unavailable

CITY OF OAKWOOD, OHIO

Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual Budgetary (Non-GAAP) Basis
General Fund
For the Year Ended December 31, 2016

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Income taxes	\$ 6,700,000	\$ 6,700,000	\$ 7,146,676	\$ 446,676
Property taxes	2,574,000	2,574,000	2,566,331	(7,669)
Intergovernmental	326,775	326,775	281,690	(45,085)
Charges for services	124,175	124,175	110,247	(13,928)
Fines, licenses and permits	165,650	165,650	178,958	13,308
Investment earnings	45,000	45,000	67,229	22,229
Donations	2,950	2,950	2,535	(415)
Miscellaneous	28,700	28,700	63,138	34,438
Total revenues	<u>9,967,250</u>	<u>9,967,250</u>	<u>10,416,804</u>	<u>449,554</u>
Expenditures				
Current:				
Security of persons and property	5,212,268	5,212,268	4,950,775	261,493
Community environment	601,235	601,235	578,644	22,591
General government	1,944,796	1,944,796	1,793,582	151,214
Total expenditures	<u>7,758,299</u>	<u>7,758,299</u>	<u>7,323,001</u>	<u>435,298</u>
Excess of revenues over (under) expenditures	<u>2,208,951</u>	<u>2,208,951</u>	<u>3,093,803</u>	<u>884,852</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	-	-
Transfers out	(2,609,024)	(2,959,024)	(2,192,115)	766,909
Total other financing sources (uses)	<u>(2,609,024)</u>	<u>(2,959,024)</u>	<u>(2,192,115)</u>	<u>766,909</u>
Net change in fund balance	(400,073)	(750,073)	901,688	1,651,761
Fund balance, beginning of year	<u>6,290,420</u>	<u>6,290,420</u>	<u>6,290,420</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,890,347</u>	<u>\$ 5,540,347</u>	<u>\$ 7,192,108</u>	<u>\$ 1,651,761</u>

See notes to required supplementary information.

CITY OF OAKWOOD, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended December 31, 2016

Note 1 – Budgetary Basis of Accounting

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balances – budget and actual budgetary (non-GAAP) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as an assignment of fund balance for general fund (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).
5. The general fund (GAAP basis) includes several funds required to be combined as opposed to the general fund (budget basis) which is just the general fund.

Additionally, all annual appropriations lapse at year-end to the extent they have been expended or lawfully encumbered. The ending fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

Note 2 – Budgetary Process

All funds, except for agency funds, are legally required to be budgeted and appropriated. 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

CITY OF OAKWOOD, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended December 31, 2016

Note 2 – Budgetary Process (Continued)

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 Council at the personal services and other expenditures level within each office, department and division within a fund. Council must approve any revisions that alter total fund 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.

Note 3 – Reconciliation of Budget Basis to Governmental GAAP Basis

The following table summarizes the adjustments necessary to reconcile the Governmental GAAP basis statements to the budgetary basis statements:

	General Fund
GAAP Basis	\$ 888,405
Adjustments:	
Other fund balances included in	
governmental GAAP basis	169,176
Revenue accruals	(84,943)
Expenditure accruals	(61,495)
Encumbrances	(45,396)
Transfers	35,941
Budgetary Basis	<u>\$ 901,688</u>

CITY OF OAKWOOD, OHIO



Yellow Book Report

December 31, 2016

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

Honorable Mayor and the City Council
City of Oakwood
Montgomery County
30 Park Avenue
Oakwood, Ohio 45419

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oakwood (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 May 19, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Dayton, Ohio
May 19, 2017