

**CITY OF NORWALK
HURON COUNTY**

**BASIC FINANCIAL STATEMENTS
(Unaudited)**

JANUARY 1, 2017 – DECEMBER 31, 2017



**CITY OF NORWALK
TABLE OF CONTENTS**

<u>TITLE</u>	<u>PAGE</u>
ACCOUNTANT'S COMPILATION REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	15
STATEMENT OF ACTIVITIES	16
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET – GOVERNMENTAL FUNDS	17
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES	18
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	20
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND	21
STATEMENT OF FUND NET POSITION – PROPRIETARY FUNDS	22
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS	23
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	24
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – FIDUCIARY FUND	25
NOTES TO THE BASIC FINANCIAL STATEMENTS	26
REQUIRED SUPPLEMENTARY INFORMATION:	
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM	76
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – OHIO POLICE AND FIRE PENSION RETIREMENT SYSTEM	77
SCHEDULE OF CITY'S CONTRIBUTIONS – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM	78
SCHEDULE OF CITY'S CONTRIBUTIONS – OHIO POLICE & FIRE PENSION RETIREMENT SYSTEM	79
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	80

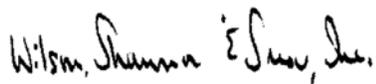
City of Norwalk
Huron County
38 Whittlesey Avenue
Norwalk, Ohio 44857

Accountant's Compilation Report

Management is responsible for the accompanying financial statements of the City of Norwalk, Huron County, (the City) as of and for the year ended December 31, 2017, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's discussion and analysis on page 3 through page 14 and the schedules of net pension liabilities and pension contributions on page 76 through page 80 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. This information is the representation of management. This information was subject to our compilation engagement; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.



May 29, 2018
Newark, Ohio

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**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

The management's discussion and analysis of the City of Norwalk's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The total net position of the City increased \$2,726,970 from 2016 net position. Net position of governmental activities increased \$1,048,194 or 5% over the 2016 net position of \$21,782,498 and net position of business-type activities increased \$1,678,776 or 7% from 2016 net position of \$23,267,548.
- General revenues accounted for \$8,460,470 of total governmental activities revenue. Program specific revenues accounted for \$5,057,943 or 37% of total governmental activities revenue.
- The City had \$12,470,219 in expenses related to governmental activities; \$5,057,943 of these expenses was offset by program specific charges for services and sales, grants or contributions. The remaining expenses of the governmental activities of \$7,412,276 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$8,460,470.
- The general fund had revenues and other financing sources of \$7,351,782 in 2017. This represents an increase of \$315,158 from 2016 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$7,586,404 in 2017 increased \$613,577 from 2016 expenditures and other financing uses. The net decrease in fund balance for the general fund was \$234,622 or 8%.
- The general capital improvements fund had revenues of \$1,349,707 in 2017. The expenditures of the general capital improvements fund totaled \$1,155,151 in 2017. The net increase in fund balance was \$194,553 from 2016.
- The fire station construction fund had revenues and other financing sources of \$3,452,268 and expenditures of \$685,918. The net increase in fund balance was \$2,766,350.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

Using this Annual Financial Report

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

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

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 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

Proprietary Funds

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

Fiduciary Funds

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

Government-Wide Financial Analysis

The statement of net position serves as a useful indicator of a government's financial position. The table below provides a summary of the City's net position for 2017 and 2016.

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**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	2017	2016
	2017	2017	2016	2016		
Net Position						
Assets						
Current and other assets	\$ 13,693,004	\$ 6,642,961	\$ 13,725,512	\$ 6,712,099	\$ 20,335,965	\$ 20,437,611
Nondepreciable capital assets	5,108,104	8,634,511	3,507,713	6,413,010	13,742,615	9,920,723
Depreciable capital assets, net	16,268,690	27,556,628	16,420,116	27,571,527	43,825,318	43,991,643
Capital assets, net	<u>21,376,794</u>	<u>36,191,139</u>	<u>19,927,829</u>	<u>33,984,537</u>	<u>57,567,933</u>	<u>53,912,366</u>
Total assets	<u>35,069,798</u>	<u>42,834,100</u>	<u>33,653,341</u>	<u>40,696,636</u>	<u>77,903,898</u>	<u>74,349,977</u>
Deferred outflows of resources	<u>3,195,018</u>	<u>1,911,100</u>	<u>2,946,060</u>	<u>1,249,930</u>	<u>5,106,118</u>	<u>4,195,990</u>
Liabilities						
Current and other liabilities	485,771	470,627	205,989	1,457,107	956,398	1,663,096
Long-term liabilities:						
Due within one year	334,805	826,059	571,475	965,121	1,160,864	1,536,596
Net pension liability	11,400,219	4,676,167	10,831,388	3,264,668	16,076,386	14,096,056
Due in more than one year	<u>1,818,133</u>	<u>13,675,938</u>	<u>2,056,021</u>	<u>12,925,469</u>	<u>15,494,071</u>	<u>14,981,490</u>
Total liabilities	<u>14,038,928</u>	<u>19,648,791</u>	<u>13,664,873</u>	<u>18,612,365</u>	<u>33,687,719</u>	<u>32,277,238</u>
Deferred inflows of resources	<u>1,395,196</u>	<u>147,665</u>	<u>1,152,030</u>	<u>66,653</u>	<u>1,542,861</u>	<u>1,218,683</u>
Net Position						
Net investment in capital assets	20,193,913	21,866,367	18,698,750	19,430,728	42,060,280	38,129,478
Restricted	9,029,630	-	8,899,535	-	9,029,630	8,899,535
Unrestricted	<u>(6,392,851)</u>	<u>3,079,957</u>	<u>(5,815,787)</u>	<u>3,836,820</u>	<u>(3,312,894)</u>	<u>(1,978,967)</u>
Total net position	<u>\$ 22,830,692</u>	<u>\$ 24,946,324</u>	<u>\$ 21,782,498</u>	<u>\$ 23,267,548</u>	<u>\$ 47,777,016</u>	<u>\$ 45,050,046</u>

Over time, net position can serve as a useful indicator of a government's financial position. At year-end, net position was \$47,777,016 that comprised \$22,830,692 and \$24,946,324 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 56% and 81% of total assets and deferred outflows of resources for the governmental activities and business-type activities, respectively. Capital assets include land, construction in progress, land improvements, buildings, equipment and infrastructure. The City's net investment in capital assets at December 31, 2017, were \$20,193,913 and \$21,866,367 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A portion of the City's net position, \$9,029,630 represents resources that are subject to external restriction on how they may be used.

The following table shows the changes in net position for 2017 and 2016.

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

	Change in Net Position					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	Total	Total
	2017	2017	2016	2016	2017	2016
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,050,082	\$ 7,541,109	\$ 1,980,346	\$ 7,473,841	\$ 9,591,191	\$ 9,454,187
Operating grants and contributions	1,511,968	-	1,258,001	-	1,511,968	1,258,001
Capital grants and contributions	1,495,893	-	505,126	-	1,495,893	505,126
Total program revenues	5,057,943	7,541,109	3,743,473	7,473,841	12,599,052	11,217,314
General revenues:						
Property and other local taxes	1,113,448	-	1,092,570	-	1,113,448	1,092,570
Income taxes	6,188,798	1,237,790	5,694,846	1,127,910	7,426,588	6,822,756
Shared revenues	98,468	-	207,528	-	98,468	207,528
Payment in lieu of taxes	63,453	-	19,559	-	63,453	19,559
Grants and entitlements	498,357	-	507,583	-	498,357	507,583
Investment earnings	190,164	-	127,627	-	190,164	127,627
Other	307,782	95,374	233,362	41,665	403,156	275,027
Total general revenues	8,460,470	1,333,164	7,883,075	1,169,575	9,793,634	9,052,650
Total revenues	13,518,413	8,874,273	11,626,548	8,643,416	22,392,686	20,269,964
Program Expenses:						
General government	2,387,100	-	2,520,734	-	2,387,100	2,520,734
Security of persons and property	5,583,100	-	5,119,301	-	5,583,100	5,119,301
Public health and welfare	100,472	-	100,583	-	100,472	100,583
Transportation	2,085,453	-	1,953,324	-	2,085,453	1,953,324
Community environment & development	595,002	-	395,706	-	595,002	395,706
Leisure time activity	1,641,708	-	1,835,834	-	1,641,708	1,835,834
Utility services	22,768	-	34,745	-	22,768	34,745
Interest and fiscal charges	54,616	-	59,495	-	54,616	59,495
Sanitation	-	1,280,929	-	1,149,345	1,280,929	1,149,345
Sewer	-	2,725,526	-	2,800,467	2,725,526	2,800,467
Water	-	3,102,399	-	2,928,943	3,102,399	2,928,943
Storm water	-	86,643	-	143,147	86,643	143,147
Total expenses	12,470,219	7,195,497	12,019,722	7,021,902	19,665,716	19,041,624
Change in net position before transfers	1,048,194	1,678,776	(393,174)	1,621,514	2,726,970	1,228,340
Transfers	-	-	770	(770)	-	-
Increase (decrease) in net position	1,048,194	1,678,776	(392,404)	1,620,744	2,726,970	1,228,340
Net position beginning of year	21,782,498	23,267,548	22,174,902	21,646,804	45,050,046	43,821,706
Net position end of year	\$ 22,830,692	\$ 24,946,324	\$ 21,782,498	\$ 23,267,548	\$ 47,777,016	\$ 45,050,046

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Governmental Activities

Governmental activities net position increased \$1,048,194 in 2017 and is primarily attributed to capital grants received for improvements to the City's transportation infrastructure.

Security of persons and property, which includes police and fire operations, totaled \$5,583,100 or 45% of total governmental activities expenses and were partially funded by \$67,113 in charges for services and sales and \$313,973 in operating grants and contributions. General government expenses totaled \$2,387,100 and were partially funded by \$936,988 in charges for services and sales and \$14,003 in operating grants and contributions.

Operating grants and contributions relate to federal, state and local revenues which totaled \$1,511,968. These revenues are restricted for security of persons and property, transportation and community environment and development purposes. Capital grants and contributions of \$1,495,893 were primarily for transportation related purposes.

General revenues totaled \$8,460,470 and primarily consist of property and income tax revenue of \$7,302,246. The other primary source of general revenues is unrestricted grants totaling \$498,357.

The statement of activities shows the cost of program services and the charges for services and sales and grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2017 compared to 2016. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

Governmental Activities - Program Revenues vs. Total Expenses

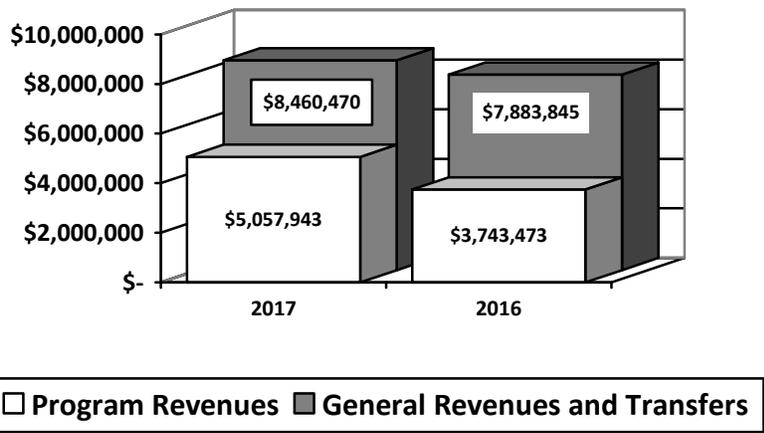
	Governmental Activities			
	2017		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 2,387,100	\$ 1,436,109	\$ 2,520,734	\$ 1,673,945
Security of persons & property	5,583,100	5,202,014	5,119,301	4,710,561
Public health and welfare	100,472	100,472	100,583	100,583
Transportation	2,085,453	(434,686)	1,953,324	748,843
Community environment & development	595,002	342,013	395,706	68,412
Leisure time activity	1,641,708	688,970	1,835,834	879,665
Utility services	22,768	22,768	34,745	34,745
Interest and fiscal charges	54,616	54,616	59,495	59,495
Total	\$ 12,470,219	\$ 7,412,276	\$ 12,019,722	\$ 8,276,249

**CITY OF NORWALK
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

The chart below illustrates the City's program revenues versus general revenues for 2016 and 2015.

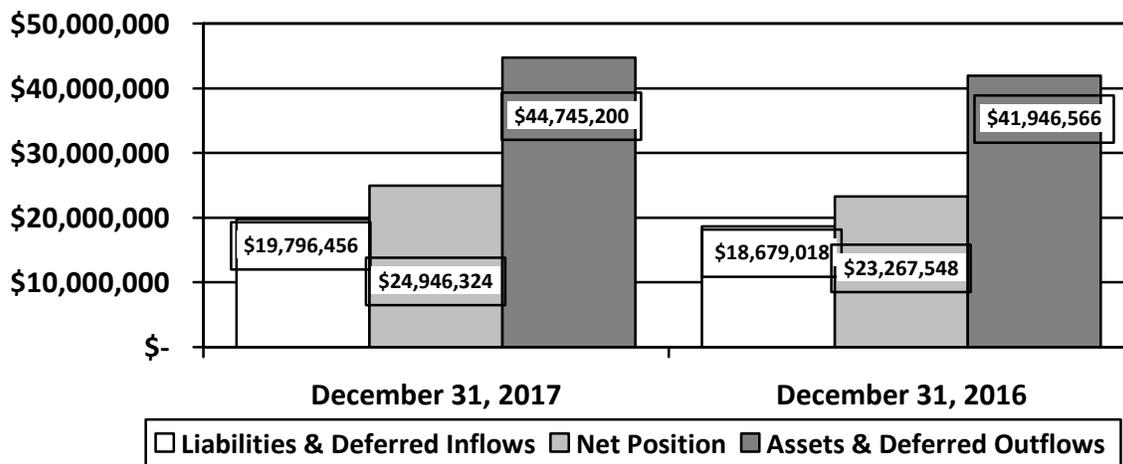
Governmental Activities – General and Program Revenues



Business-type Activities

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

Net Position in Business - Type Activities



**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds reported a combined fund balance of \$11,167,778 which is \$665,267 lower than last year's total of \$11,833,045. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2017 for all major and non-major governmental funds.

	Fund Balances 12/31/2017	Fund Balances 12/31/2016	Increase (Decrease)
Major funds:			
General fund	\$ 2,828,681	\$ 3,063,303	\$ (234,622)
General capital improvement fund	1,180,065	985,512	194,553
Fire station construction fund	2,816,350	50,000	2,766,350
Other governmental funds	4,342,682	7,734,230	(3,391,548)
Total	<u>\$ 11,167,778</u>	<u>\$ 11,833,045</u>	<u>\$ (665,267)</u>

General Fund

The City's general fund balance decreased \$234,622. The table that follows assists in illustrating the revenues of the general fund.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

	<u>2017 Amount</u>	<u>2016 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Property and other taxes	\$ 581,690	\$ 590,882	(1.56) %
Income taxes	4,735,864	4,649,055	1.87 %
Shared revenues	63,783	66,234	(3.70) %
Special assessments	2,523	4,201	(39.94) %
Charges for services	72,857	68,867	5.79 %
Licenses and permits	224,546	219,063	2.50 %
Fines and forfeitures	642,570	559,604	14.83 %
Intergovernmental	670,138	637,002	5.20 %
Investment income	177,204	87,514	102.49 %
Other	178,607	108,795	64.17 %
Total	<u>\$ 7,349,782</u>	<u>\$ 6,991,217</u>	5.13 %

The City's largest revenue source in the general fund was income tax revenue, which represents 64% of all general fund revenue. Income tax revenues were relatively flat from the prior year increasing 1.87% from the prior year.

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

	<u>2017 Amount</u>	<u>2016 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 2,066,829	\$ 2,059,576	0.35 %
Security of persons and property	4,371,680	4,047,334	8.01 %
Public health and welfare	100,472	100,583	(0.11) %
Transportation	31,511	35,193	(10.46) %
Community environment and development	11,680	9,860	18.46 %
Capital outlay	93,199	69,196	34.69 %
Debt service	12,397	6,632	86.93 %
Total	<u>\$ 6,687,768</u>	<u>\$ 6,328,374</u>	5.68 %

Total general fund expenditures increased 5.68% from the prior year with the largest dollar increase related to security of persons and property.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources came in \$152,721 higher than they were in the final budget and actual expenditures and other financing uses were \$117,978 less than the amount in the final budget.

General Capital Improvements Fund

The general capital improvements fund had revenues of \$1,349,704 in 2017. The expenditures of the general capital improvements fund totaled \$1,155,151 in 2017. The net increase in fund balance was \$194,553 from 2016.

Fire Station Construction Fund

The fire station construction fund had revenues and other financing sources of \$3,452,268 and expenditures of \$685,918. The net increase in fund balance was \$2,766,350.

Capital Assets and Debt Administration

Capital Assets

At the end of 2017, the City had \$57,567,933 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, equipment, and infrastructure. Of this total, \$21,376,794 was reported in governmental activities and \$36,191,139 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows 2017 balances compared to 2016.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,010,927	\$ 3,010,927	\$ 36,807	\$ 36,807	\$ 3,047,734	\$ 3,047,734
Construction in progress	2,097,177	496,786	8,597,704	6,376,203	10,694,881	6,872,989
Land improvements	476,906	531,333	197,531	211,605	674,437	742,938
Buildings	3,761,745	3,920,477	7,803,611	8,079,324	11,565,356	11,999,801
Equipment	2,120,222	1,790,524	2,731,281	2,485,988	4,851,503	4,276,512
Infrastructure	9,909,817	10,177,782	16,824,205	16,794,610	26,734,022	26,972,392
Totals	<u>\$ 21,376,794</u>	<u>\$ 19,927,829</u>	<u>\$ 36,191,139</u>	<u>\$ 33,984,537</u>	<u>\$ 57,567,933</u>	<u>\$ 53,912,366</u>

The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 46% of the City's total governmental activities and 46% of the business-type activity capital assets.

**CITY OF NORWALK
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Debt Administration

The City had the following debt obligations outstanding at December 31, 2017 and 2016:

	Governmental Activities	
	2017	2016
OPWC loans	\$ 144,454	\$ 129,430
OWDA loans	318,715	390,993
Capital leases	579,244	690,876
Police and fire pension	341,310	354,283
Total debt obligations	\$ 1,383,723	\$ 1,565,582
	Business-type Activities	
	2017	2016
OPWC loans	\$ 50,575	\$ 57,800
Bond anticipation notes	300,000	650,000
OWDA loans	13,873,373	13,072,456
Capital leases	100,824	84,535
Total debt obligations	\$ 14,324,772	\$ 13,864,791

See Notes 11 and 12 to the basic financial statements for detail on the City's debt obligations.

Economic Factors and Next Year's Budget and Rates

The City continues to closely monitor the revenue and expenditures. Income tax collections, the City's primary source of General Fund revenue, decreased by 14% from 2016 to 2017 largely due to changes enacted by the Ohio Legislature regarding uniformity of municipal income taxes (HB5) in 2016. Knowing that withholdings received accelerated revenue in 2016, we expected income tax receipts to decline in 2017 and the City continued to budget conservatively. Local Government funding has remained steady over the past three years, after reductions were enacted due to budget shortfalls at the State level and is expected to be consistent in the upcoming years.

In addition, the following items were taken into consideration during preparation of the 2018 budget: 1) Interest rates continue to be lower than historical levels; 2) The cost of repair and replacement of City infrastructure continues to increase; and 3) Income Tax Revenue will not be at levels collected in 2017.

The 2018 Budget reflects the City's continued effort to practice conservative budgetary practices in order to preserve a solid financial position in the future.

Contacting the City's Financial Management

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

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 8,996,721	\$ 5,688,169	\$ 14,684,890
Cash in segregated accounts	3,756	-	3,756
Receivables:			
Income taxes	1,214,484	242,955	1,457,439
Property and other taxes	1,092,023	-	1,092,023
Accounts	50,872	640,235	691,107
Payments in lieu of taxes	42,230	-	42,230
Accrued interest	44,786	-	44,786
Special assessments	43,259	4,365	47,624
Due from other governments	894,860	-	894,860
Notes receivable	1,233,105	-	1,233,105
Materials and supplies inventory	76,908	67,237	144,145
Capital assets:			
Nondepreciable capital assets	5,108,104	8,634,511	13,742,615
Depreciable capital assets, net	16,268,690	27,556,628	43,825,318
Total capital assets, net	<u>21,376,794</u>	<u>36,191,139</u>	<u>57,567,933</u>
Total assets	<u>35,069,798</u>	<u>42,834,100</u>	<u>77,903,898</u>
Deferred outflows of resources:			
Pension	3,195,018	1,911,100	5,106,118
Total deferred outflows of resources	<u>3,195,018</u>	<u>1,911,100</u>	<u>5,106,118</u>
Total assets and deferred outflows of resources	<u>38,264,816</u>	<u>44,745,200</u>	<u>83,010,016</u>
Liabilities:			
Accounts payable	71,636	61,810	133,446
Contracts payable	140,468	-	140,468
Accrued wages and benefits payable	121,250	55,810	177,060
Due to other governments	152,417	48,007	200,424
Accrued interest payable	-	5,000	5,000
Notes payable	-	300,000	300,000
Due within one year	334,805	826,059	1,160,864
Due in more than one year:			
Net pension liability	11,400,219	4,676,167	16,076,386
Other amount due in more than one year	1,818,133	13,675,938	15,494,071
Total liabilities	<u>14,038,928</u>	<u>19,648,791</u>	<u>33,687,719</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	1,026,799	-	1,026,799
Payment in lieu of tax revenue not available	42,230	-	42,230
Pension	326,167	147,665	473,832
Total deferred inflows of resources	<u>1,395,196</u>	<u>147,665</u>	<u>1,542,861</u>
Total liabilities and deferred inflows of resources	<u>15,434,124</u>	<u>19,796,456</u>	<u>35,230,580</u>
Net position:			
Net investment in capital assets	20,193,913	21,866,367	42,060,280
Restricted for:			
Capital projects	4,951,418	-	4,951,418
Municipal court and programs	737,269	-	737,269
Transportation	1,066,309	-	1,066,309
Parks and recreation	127,474	-	127,474
Community development	1,433,155	-	1,433,155
Payroll stabilization	326,003	-	326,003
Other purposes	388,002	-	388,002
Unrestricted	<u>(6,392,851)</u>	<u>3,079,957</u>	<u>(3,312,894)</u>
Total net position	<u>\$ 22,830,692</u>	<u>\$ 24,946,324</u>	<u>\$ 47,777,016</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,387,100	\$ 936,988	\$ 14,003	\$ -	\$ (1,436,109)	\$ -	\$ (1,436,109)
Security of persons and property	5,583,100	67,113	313,973	-	(5,202,014)	-	(5,202,014)
Public health and welfare	100,472	-	-	-	(100,472)	-	(100,472)
Transportation	2,085,453	59,242	1,041,004	1,419,893	434,686	-	434,686
Community environment & development	595,002	35,001	142,988	75,000	(342,013)	-	(342,013)
Leisure time activity	1,641,708	951,738	-	1,000	(688,970)	-	(688,970)
Utility services	22,768	-	-	-	(22,768)	-	(22,768)
Interest and fiscal charges	54,616	-	-	-	(54,616)	-	(54,616)
Total governmental activities	12,470,219	2,050,082	1,511,968	1,495,893	(7,412,276)	-	(7,412,276)
Business-type activities:							
Water	3,102,399	3,460,598	-	-	-	358,199	358,199
Sewer	2,725,526	3,846,895	-	-	-	1,121,369	1,121,369
Sanitation	1,280,929	10,394	-	-	-	(1,270,535)	(1,270,535)
Storm water	86,643	223,222	-	-	-	136,579	136,579
Total business-type activities	7,195,497	7,541,109	-	-	-	345,612	345,612
Total primary government	\$ 19,665,716	\$ 9,591,191	\$ 1,511,968	\$ 1,495,893	(7,412,276)	345,612	(7,066,664)
General revenues:							
Property and other taxes levied for:							
General purposes					586,717	-	586,717
Police					136,624	-	136,624
Fire					136,624	-	136,624
Recreation					253,483	-	253,483
Income taxes levied for:							
General purposes					4,951,008	-	4,951,008
Capital outlay					1,237,790	-	1,237,790
Sanitation					-	1,237,790	1,237,790
Payments in lieu of taxes					63,453	-	63,453
Grants and entitlements not restricted to specific programs					498,357	-	498,357
Investment earnings					190,164	-	190,164
Shared revenues					98,468	-	98,468
Other					307,782	95,374	403,156
Total general revenues					8,460,470	1,333,164	9,793,634
Change in net position					1,048,194	1,678,776	2,726,970
Net position at beginning of year					21,782,498	23,267,548	45,050,046
Net position at end of year					\$ 22,830,692	\$ 24,946,324	\$ 47,777,016

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017
(UNAUDITED)

	General	General Capital Improvements	Fire Station Construction	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 1,995,513	\$ 998,676	\$ 2,816,350	\$ 3,186,182	\$ 8,996,721
Cash in segregated accounts	3,756	-	-	-	3,756
Receivables:	-	-	-	-	-
Income taxes	971,529	242,955	-	-	1,214,484
Property and other taxes	577,298	-	-	514,725	1,092,023
Accounts	43,844	-	-	7,028	50,872
Payments in lieu of taxes	-	-	-	42,230	42,230
Accrued interest	44,786	-	-	-	44,786
Special assessments	12,846	30,413	-	-	43,259
Interfund	200,000	-	-	-	200,000
Notes receivable	-	-	-	1,233,105	1,233,105
Due from other governments	190,806	-	-	704,054	894,860
Materials and supplies inventory	-	-	-	76,908	76,908
Total assets	<u>\$ 4,040,378</u>	<u>\$ 1,272,044</u>	<u>\$ 2,816,350</u>	<u>\$ 5,764,232</u>	<u>\$ 13,893,004</u>
Liabilities:					
Accounts payable	\$ 16,466	\$ -	\$ -	\$ 55,170	\$ 71,636
Contracts payable	-	-	-	140,468	140,468
Accrued wages and benefits payable	88,600	-	-	32,650	121,250
Interfund payable	-	-	-	200,000	200,000
Due to other governments	86,328	-	-	66,089	152,417
Total liabilities	<u>191,394</u>	<u>-</u>	<u>-</u>	<u>494,377</u>	<u>685,771</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year	542,382	-	-	484,417	1,026,799
Delinquent property tax revenue not available	32,398	-	-	26,256	58,654
Accrued interest not available	44,675	-	-	-	44,675
Special assessments revenue not available	12,846	30,413	-	-	43,259
Payment in lieu of tax revenue not available	-	-	-	42,230	42,230
Income tax revenue not available	246,066	61,566	-	-	307,632
Nonexchange transactions not available	141,936	-	-	374,270	516,206
Total deferred inflows of resources	<u>1,020,303</u>	<u>91,979</u>	<u>-</u>	<u>927,173</u>	<u>2,039,455</u>
Total liabilities and deferred inflows of resources	<u>1,211,697</u>	<u>91,979</u>	<u>-</u>	<u>1,421,550</u>	<u>2,725,226</u>
Fund balances:					
Nonspendable	-	-	-	1,310,013	1,310,013
Restricted	-	-	2,816,350	2,772,737	5,589,087
Committed	-	1,180,065	-	262,246	1,442,311
Assigned	1,002,249	-	-	-	1,002,249
Unassigned	1,826,432	-	-	(2,314)	1,824,118
Total fund balances	<u>2,828,681</u>	<u>1,180,065</u>	<u>2,816,350</u>	<u>4,342,682</u>	<u>11,167,778</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,040,378</u>	<u>\$ 1,272,044</u>	<u>\$ 2,816,350</u>	<u>\$ 5,764,232</u>	<u>\$ 13,893,004</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017
(UNAUDITED)

Total governmental fund balances	\$	11,167,778
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,376,794
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:		
Income taxes receivable	\$ 307,632	
Property and other taxes receivable	58,654	
Due from other governments receivable	516,206	
Special assessments receivable	43,259	
Investment income receivable	44,675	
Total	970,426	970,426
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred outflows - pension	3,195,018	
Deferred inflows - pension	(326,167)	
Net pension liability	(11,400,219)	
Total	(8,531,368)	(8,531,368)
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(769,215)	
OWDA loan payable	(318,715)	
Capital lease payable	(579,244)	
OPWC loans payable	(144,454)	
Police and fire pension	(341,310)	
Total	(2,152,938)	(2,152,938)
Net position of governmental activities	\$	22,830,692

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

	<u>General</u>	<u>General Capital Improvements</u>	<u>Fire Station Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 4,735,864	\$ 1,183,957	\$ -	\$ -	\$ 5,919,821
Property and other taxes	581,690	-	-	522,823	1,104,513
Charges for services	72,857	9,991	-	947,138	1,029,986
Licenses and permits	224,546	-	-	5,385	229,931
Fines and forfeitures	642,570	-	-	94,044	736,614
Payments in lieu of taxes	-	-	-	63,453	63,453
Intergovernmental	670,138	93,128	-	2,662,711	3,425,977
Special assessments	2,523	57,522	-	-	60,045
Investment income	177,204	1,306	-	3,035	181,545
Shared revenues	63,783	-	-	34,685	98,468
Other	178,607	3,800	700	124,675	307,782
Total revenues	<u>7,349,782</u>	<u>1,349,704</u>	<u>700</u>	<u>4,457,949</u>	<u>13,158,135</u>
Expenditures:					
Current:					
General government	2,066,829	14,757	-	53,580	2,135,166
Security of persons and property	4,371,680	-	-	767,227	5,138,907
Public health and welfare	100,472	-	-	-	100,472
Transportation	31,511	-	-	716,867	748,378
Community environment and development	11,680	-	-	526,524	538,204
Leisure time activity	-	-	-	1,545,530	1,545,530
Utility services	-	-	-	22,768	22,768
Capital outlay	93,199	902,510	685,918	1,677,875	3,359,502
Debt service:					
Principal retirement	8,606	203,985	-	33,612	246,203
Interest and fiscal charges	3,791	33,899	-	16,926	54,616
Total expenditures	<u>6,687,768</u>	<u>1,155,151</u>	<u>685,918</u>	<u>5,360,909</u>	<u>13,889,746</u>
Excess (deficiency) of revenues over (under) expenditures	<u>662,014</u>	<u>194,553</u>	<u>(685,218)</u>	<u>(902,960)</u>	<u>(731,611)</u>
Other financing sources (uses):					
Sale of capital assets	2,000	-	-	-	2,000
Loan proceeds	-	-	-	30,560	30,560
Capital lease transaction	-	-	-	33,784	33,784
Transfers in	-	-	3,451,568	898,636	4,350,204
Transfers (out)	(898,636)	-	-	(3,451,568)	(4,350,204)
Total other financing sources (uses)	<u>(896,636)</u>	<u>-</u>	<u>3,451,568</u>	<u>(2,488,588)</u>	<u>66,344</u>
Net change in fund balances	<u>(234,622)</u>	<u>194,553</u>	<u>2,766,350</u>	<u>(3,391,548)</u>	<u>(665,267)</u>
Fund balances at beginning of year	<u>3,063,303</u>	<u>985,512</u>	<u>50,000</u>	<u>7,734,230</u>	<u>11,833,045</u>
Fund balances at end of year	<u>\$ 2,828,681</u>	<u>\$ 1,180,065</u>	<u>\$ 2,816,350</u>	<u>\$ 4,342,682</u>	<u>\$ 11,167,778</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Net change in fund balances - total governmental funds \$ (665,267)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$	3,074,276	
Current year depreciation		<u>(1,624,687)</u>	
Total			1,449,589

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.

(624)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

360,278

Proceeds of loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.

(64,344)

Repayment of loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

246,203

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

841,894

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.

(1,265,630)

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

146,095

Change in net position of governmental activities \$ 1,048,194

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 4,490,000	\$ 4,490,000	\$ 4,453,197	\$ (36,803)
Property and other taxes	585,050	585,050	587,522	2,472
Charges for services	52,820	52,820	72,857	20,037
Licenses, permits and fees	215,800	215,800	224,546	8,746
Intergovernmental	698,350	698,350	677,669	(20,681)
Special assessments	4,500	4,500	2,523	(1,977)
Investment income	129,600	129,600	177,093	47,493
Shared revenues	64,000	64,000	64,269	269
Fines and forfeitures	632,500	632,500	635,802	3,302
Other	25,935	25,935	153,798	127,863
Total revenues	<u>6,898,555</u>	<u>6,898,555</u>	<u>7,049,276</u>	<u>150,721</u>
Expenditures:				
Current:				
General government	2,087,640	2,080,977	1,932,258	148,719
Security of persons and property	4,614,520	4,638,326	4,494,680	143,646
Public health and welfare	110,625	110,625	107,597	3,028
Transportation	39,458	39,284	31,499	7,785
Community environment and development	103,197	119,947	112,628	7,319
Capital outlay	94,000	94,000	93,199	801
Debt service:				
Principal retirement	8,606	8,606	8,606	-
Interest and fiscal charges	3,791	3,791	3,791	-
Total expenditures	<u>7,061,837</u>	<u>7,095,556</u>	<u>6,784,258</u>	<u>311,298</u>
Excess of revenues over expenditures	<u>(163,282)</u>	<u>(197,001)</u>	<u>265,018</u>	<u>462,019</u>
Other financing sources (uses):				
Advances (out)	-	-	(200,000)	(200,000)
Transfers (out)	(828,600)	(905,316)	(898,636)	6,680
Sale of assets	-	-	2,000	2,000
Total other financing sources (uses)	<u>(828,600)</u>	<u>(905,316)</u>	<u>(1,096,636)</u>	<u>(191,320)</u>
Net change in fund balances	(991,882)	(1,102,317)	(831,618)	270,699
Fund balance at beginning of year	2,427,537	2,427,537	2,427,537	-
Prior year encumbrances appropriated	214,647	214,647	214,647	-
Fund balance at end of year	<u>\$ 1,650,302</u>	<u>\$ 1,539,867</u>	<u>\$ 1,810,566</u>	<u>\$ 270,699</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017
(UNAUDITED)

	Business-type Activities - Enterprise Funds				
	Major			Non-Major	Total
	Water	Sewer	Sanitation	Storm Water	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 1,880,613	\$ 2,545,777	\$ 1,043,891	\$ 217,888	\$ 5,688,169
Receivables:					
Income taxes	-	-	242,955	-	242,955
Accounts	276,005	307,697	-	56,533	640,235
Special assessments	-	4,365	-	-	4,365
Materials and supplies inventory	62,663	4,574	-	-	67,237
Total current assets	2,219,281	2,862,413	1,286,846	274,421	6,642,961
Noncurrent assets:					
Capital assets:					
Land and construction in progress	223,869	8,377,678	28,007	4,957	8,634,511
Depreciable capital assets, net	11,006,382	15,558,610	790,094	201,542	27,556,628
Total capital assets, net	11,230,251	23,936,288	818,101	206,499	36,191,139
Total assets	13,449,532	26,798,701	2,104,947	480,920	42,834,100
Deferred outflows of resources:					
Pension	757,850	790,800	329,500	32,950	1,911,100
Total deferred outflows of resources	757,850	790,800	329,500	32,950	1,911,100
Total assets and deferred outflows of resources	14,207,382	27,589,501	2,434,447	513,870	44,745,200
Liabilities:					
Current liabilities:					
Accounts payable	26,482	21,262	3,436	10,630	61,810
Accrued wages and benefits payable	21,392	23,323	9,952	1,143	55,810
Compensated absences payable - current	10,059	12,568	6,317	839	29,783
Due to other governments	17,659	18,876	10,202	1,270	48,007
Accrued interest payable	5,000	-	-	-	5,000
OWDA loans payable	136,062	592,790	-	-	728,852
OPWC loans payable	-	21,675	-	-	21,675
Capital lease obligations payable	15,689	15,689	757	13,614	45,749
Notes payable	300,000	-	-	-	300,000
Total current liabilities	532,343	706,183	30,664	27,496	1,296,686
Long-term liabilities:					
Compensated absences payable	151,118	188,810	94,908	12,606	447,442
OWDA loans payable	2,147,941	10,996,580	-	-	13,144,521
OPWC loans payable	-	28,900	-	-	28,900
Capital lease obligations payable	19,350	19,350	2,241	14,134	55,075
Net pension liability	1,854,342	1,934,965	806,236	80,624	4,676,167
Total long-term liabilities	4,172,751	13,168,605	903,385	107,364	18,352,105
Total liabilities	4,705,094	13,874,788	934,049	134,860	19,648,791
Deferred inflows of resources:					
Pension	59,516	62,104	25,877	168	147,665
Total deferred inflows of resources	59,516	62,104	25,877	168	147,665
Total liabilities and deferred inflows of resources	4,764,610	13,936,892	959,926	135,028	19,796,456
Net position:					
Net investment in capital assets	8,611,209	12,261,304	815,103	178,751	21,866,367
Unrestricted	831,563	1,391,305	659,418	197,671	3,079,957
Total net position	\$ 9,442,772	\$ 13,652,609	\$ 1,474,521	\$ 376,422	\$ 24,946,324

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Business-type Activities - Enterprise Funds

	Major			Non-Major Storm Water	Total
	Water	Sewer	Sanitation		
Operating revenues:					
Charges for services	\$ 3,460,598	\$ 3,842,530	\$ 10,394	\$ 223,222	\$ 7,536,744
Other operating revenues	13,965	73,487	6,811	1,111	95,374
Total operating revenues	<u>3,474,563</u>	<u>3,916,017</u>	<u>17,205</u>	<u>224,333</u>	<u>7,632,118</u>
Operating expenses:					
Personal services	1,594,863	1,296,518	737,752	37,040	3,666,173
Contract services	574,469	129,849	364,607	34,167	1,103,092
Materials and supplies	387,102	171,173	73,169	2,911	634,355
Depreciation	451,802	801,784	105,079	12,119	1,370,784
Total operating expenses	<u>3,008,236</u>	<u>2,399,324</u>	<u>1,280,607</u>	<u>86,237</u>	<u>6,774,404</u>
Operating income (loss)	<u>466,327</u>	<u>1,516,693</u>	<u>(1,263,402)</u>	<u>138,096</u>	<u>857,714</u>
Nonoperating revenues (expenses):					
Income taxes	-	-	1,237,790	-	1,237,790
Interest and fiscal charges	(94,163)	(326,202)	(322)	(406)	(421,093)
Special assessments	-	4,365	-	-	4,365
Total nonoperating revenues (expenses)	<u>(94,163)</u>	<u>(321,837)</u>	<u>1,237,468</u>	<u>(406)</u>	<u>821,062</u>
Change in net position	372,164	1,194,856	(25,934)	137,690	1,678,776
Net position at beginning of year	<u>9,070,608</u>	<u>12,457,753</u>	<u>1,500,455</u>	<u>238,732</u>	<u>23,267,548</u>
Net position at end of year	<u>\$ 9,442,772</u>	<u>\$ 13,652,609</u>	<u>\$ 1,474,521</u>	<u>\$ 376,422</u>	<u>\$ 24,946,324</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

	Business-Type Activities - Enterprise Funds				
	Major			Non-Major	Total
	Water	Sewer	Sanitation	Storm Water	
Cash flows from operating activities:					
Cash received from customers	\$ 3,442,812	\$ 3,827,196	\$ 10,394	\$ 223,734	\$ 7,504,136
Cash received from other operations	13,965	73,487	6,811	1,111	95,374
Cash payments for personal services	(1,309,471)	(1,193,063)	(668,454)	(100,907)	(3,271,895)
Cash payments for contract services	(537,266)	(391,702)	(360,660)	(9,578)	(1,299,206)
Cash payments for materials and supplies	(462,590)	(267,575)	(73,169)	(28,889)	(832,223)
Net cash provided by (used in) operating activities	<u>1,147,450</u>	<u>2,048,343</u>	<u>(1,085,078)</u>	<u>85,471</u>	<u>2,196,186</u>
Cash flows from noncapital financing activities:					
Cash received from income taxes	-	-	1,113,300	-	1,113,300
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>1,113,300</u>	<u>-</u>	<u>1,113,300</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(742,934)	(2,485,634)	(219,950)	(33,413)	(3,481,931)
Bond anticipation notes	300,000	-	-	-	300,000
Loan proceeds - OWDA	-	1,781,278	-	-	1,781,278
Principal payments on bond anticipation notes	(650,000)	-	-	-	(650,000)
Principal retirement on capital lease	(35,051)	(35,051)	(689)	(14,272)	(85,063)
Principal retirement on OWDA loans	(131,602)	(848,759)	-	-	(980,361)
Principal retirement on OPWC loans	-	(7,225)	-	-	(7,225)
Interest and fiscal charges	(89,163)	(324,353)	(322)	(406)	(414,244)
Net cash used in capital and related financing activities	<u>(1,348,750)</u>	<u>(1,919,744)</u>	<u>(220,961)</u>	<u>(48,091)</u>	<u>(3,537,546)</u>
Net increase (decrease) in cash and cash equivalents	(201,300)	128,599	(192,739)	37,380	(228,060)
Cash and cash equivalents at beginning of year	<u>2,081,913</u>	<u>2,417,178</u>	<u>1,236,630</u>	<u>180,508</u>	<u>5,916,229</u>
Cash and cash equivalents at end of year	<u>\$ 1,880,613</u>	<u>\$ 2,545,777</u>	<u>\$ 1,043,891</u>	<u>\$ 217,888</u>	<u>\$ 5,688,169</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 466,327	\$ 1,516,693	\$ (1,263,402)	\$ 138,096	\$ 857,714
Adjustments:					
Depreciation	451,802	801,784	105,079	12,119	1,370,784
Changes in assets, deferred outflows, liabilities and deferred inflows:					
(Increase) decrease in accounts receivable	(17,786)	(15,334)	-	(37,518)	(70,638)
Decrease (increase) in materials and supplies inventory	14,935	14,035	-	-	28,970
(Increase) decrease in special assessments receivable	-	7,236	-	-	7,236
Increase (decrease) in accrued wages and benefits	12,377	12,935	(1,670)	(1,210)	22,432
Increase (decrease) in accounts payable	13,545	7,271	(1,199)	10,375	29,992
Increase (decrease) in retainage payable	(21,645)	(270,107)	-	-	(291,752)
Increase (decrease) in contracts payable	-	(397,265)	-	-	(397,265)
Increase (decrease) in compensated absences payable	(97,385)	(78,521)	(12,890)	(9,778)	(198,574)
(Increase) decrease in deferred outflows of resources - pension	(259,459)	(333,250)	(80,217)	11,756	(661,170)
Increase (decrease) in net pension liability	550,572	741,105	155,627	(35,805)	1,411,499
Increase (decrease) in deferred inflows of resources - pension	33,154	37,578	12,532	(2,252)	81,012
(Decrease) increase in due to other governments	1,013	4,183	1,062	(312)	5,946
Net cash provided by (used in) operating activities	<u>\$ 1,147,450</u>	<u>\$ 2,048,343</u>	<u>\$ (1,085,078)</u>	<u>\$ 85,471</u>	<u>\$ 2,196,186</u>
Non-cash capital transactions:					

During 2016, the water, sewer and storm water enterprise funds entered into capital lease purchase obligations of \$33,784, \$33,784 and \$33,784, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2017
(UNAUDITED)

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 56,192
Cash in segregated accounts	<u>27,392</u>
Total assets	<u><u>\$ 83,584</u></u>
Liabilities:	
Due to others	<u>\$ 83,584</u>
Total liabilities	<u><u>\$ 83,584</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

The City has no component units.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

B. Basis of Presentation - Fund Accounting

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

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City.

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

C. Fund Accounting

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

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

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

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

Fire station construction fund - This capital projects fund is used to account for transfers received from the City's capital investment trust fund in order to construct a new fire station.

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

All assets, deferred outflows, liabilities and deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

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

For the City, deferred outflows of resources have been reported for the following items related to the City's net pension liability: (1) the net difference between projected and actual investment earnings on pension plan assets, (2) the City's contributions to the pension systems subsequent to the measurement date and (3) differences between employer's contributions and the employer's proportional share of contributions. The City also reports deferred outflows of resources for current and advance refunding which result in a defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt.

Property taxes for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2017, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

F. Budgetary Process

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

Estimated Resources:

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The City legally adopted appropriation amendments during 2017. The budgetary statement reflects the original and final appropriations as approved by Council.

Encumbrances:

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

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

G. Cash and Cash Equivalents

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

The City invested in STAR Ohio during 2017. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2017 amounted to \$177,204, which included \$149,903 assigned from other funds of the City.

H. Materials and Supplies Inventory

On government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

I. Capital Assets

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

The City’s infrastructure consists of culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities. All reported capital assets are depreciated except for land and intangibles. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 years	20 years
Buildings	6 to 45 years	6 to 45 years
Equipment	5 to 45 years	5 to 45 years
Infrastructure	10 to 50 years	10 to 50 years

J. Compensated Absences

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

On fund financial statements, receivables and payables to cover deficit cash balances are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net position.

M. Fund Balance

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

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

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

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

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

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

N. Estimates

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

O. Net Position

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

P. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2017 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed. Prepayments were not reported at December 31, 2017.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2017.

R. Fair Value

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

S. Contributions of Capital

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

T. Unamortized Bond Discounts/Accounting Gain or Loss

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

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction from the face amount of the new debt.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

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

U. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2017, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* Statement No. 80, *“Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14,”* Statement No. 81, *“Irrevocable Split-Interest Agreements,”* and Statement No. 82, *“Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.”*

GASB Statement No. 74 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments.

GASB Statement No. 81 addresses irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balance

Fund balances at December 31, 2017 included a deficit of \$2,314 FY 2016 Assistance to Firefighters other governmental funds. The General fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2, above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year end, the City had \$1,270 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and investments".

B. Cash in Segregated Accounts

At year-end, \$31,148 was on deposit for the City's furtherance of justice account and municipal court account and was held outside of the City's treasury. This amount is included in the total amount of deposits reported below and is reported on the financial statements as "cash in segregated accounts".

C. Deposits with Financial Institutions

At December 31, 2017, the carrying amount of all City deposits was \$813,695. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2017, \$257,547 of the City's bank balance of \$1,196,907 was exposed to custodial credit risk as discussed below, while \$939,360 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits.

Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of December 31, 2017, the City had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLMC	\$ 1,635,512	\$ -	\$ -	\$ -	\$ -	\$ 1,635,512
FFCB	895,735	-	-	-	-	895,735
FNMA	493,730	-	-	-	-	493,730
Negotiable CD's	4,494,469	241,620	493,918	246,541	990,457	2,521,933
Commercial paper	2,293,226	2,293,226	595,740	-	-	-
STAR Ohio	4,144,593	4,144,593	-	-	-	-
Total	<u>\$ 13,957,265</u>	<u>\$ 6,679,439</u>	<u>\$ 1,089,658</u>	<u>\$ 246,541</u>	<u>\$ 990,457</u>	<u>\$ 5,546,910</u>

The weighted average maturity of investments is 1.23 years. The City's investments in federal securities, commercial paper, and negotiable CD's are valued using quoted market prices (Level 2 inputs). Star Ohio is valued at cost.

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

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

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2017:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,635,512	11.72
FNMA	493,730	6.42
FFCB	895,735	3.54
Commercial paper	2,293,226	16.43
Negotiable CD's	4,494,469	32.20
STAR Ohio	<u>4,144,593</u>	<u>29.69</u>
 Total	 <u>\$ 13,957,265</u>	 <u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 813,695
Investments	13,957,265
Cash on hand	<u>1,270</u>
Total	<u>\$ 14,772,230</u>

<u>Cash and investments per statement of position</u>	
Governmental activities	\$ 9,000,477
Business-type activities	5,688,169
Agency fund	<u>83,584</u>
Total	<u>\$ 14,772,230</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at December 31, 2017, as reported on the fund statements as interfund receivables/payables consist of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Other governmental funds	\$ 200,000

The primary purpose of the interfund receivables/payables relates to short-term interfund loans. These interfund balances will be repaid once the anticipated revenues are received. The interfund balances are expected to be repaid within one year.

- B.** Interfund transfers for the fiscal year ended December 31, 2017, consisted of the following, as reported on the fund financial statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 898,636
Other governmental funds	Fire station construction fund	3,451,568

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers from the general fund to other governmental funds are were used to supplement operations. Transfers from the other governmental funds to the fire station construction fund are for the purpose of constructing a new fire station. All transfers made in fiscal year 2017 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2017 public utility property taxes became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Norwalk. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2017 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2017 operations and the collection of delinquent taxes has been offset by a deferred inflow since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values of real and public utility property upon which 2017 property tax receipts were based are as follows:

Real property tax	\$ 255,106,020
Public utility tangible personal property	<u>10,022,210</u>
Total assessed value	<u><u>\$ 265,128,230</u></u>

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.5% applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. The City gives a 100% credit to the tax paid to another municipality to the maximum of the total amount assessed. It also applies to the net income of business organizations located within the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2017 and is allocated to the general fund, sanitation fund and general capital improvements fund. Income tax revenue for 2017 was \$7,426,588 as reported in the statement of activities.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 8 - RECEIVABLES

Receivables at December 31, 2017, consisted of taxes, payments in lieu of taxes, accounts (billings for user charged services), accrued interest, notes, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue.

All intergovernmental receivables have been classified as “due from other governments” on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2017. A summary of the principal items of receivables reported on the statement of net position follows:

Income taxes	\$ 1,214,484
Property and other taxes	1,092,023
Payments in lieu of taxes	42,230
Accounts	50,872
Special assessments	43,259
Accrued interest	44,786
Notes	1,233,105
Due from other governments	894,860
<u>Business-type activities:</u>	
Accounts	640,235
Income taxes	242,955
Special assessments	4,365

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 9 - CAPITAL ASSETS

A. Governmental activities capital asset activity at December 31, 2017 was as follows:

<u>Governmental activities:</u>	Balance 12/31/16	Additions	Deductions	Balance 12/31/2017
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,010,927	\$ -	\$ -	\$ 3,010,927
Construction in progress	496,786	2,097,177	(496,786)	2,097,177
Total capital assets, not being depreciated	<u>3,507,713</u>	<u>2,097,177</u>	<u>(496,786)</u>	<u>5,108,104</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,768,746	-	-	1,768,746
Buildings	7,766,082	12,000	-	7,778,082
Equipment	7,471,409	679,404	(690,020)	7,460,793
Infrastructure	23,907,022	782,481	-	24,689,503
Total capital assets, being depreciated	<u>40,913,259</u>	<u>1,473,885</u>	<u>(690,020)</u>	<u>41,697,124</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,237,413)	(54,427)	-	(1,291,840)
Buildings	(3,845,605)	(170,732)	-	(4,016,337)
Equipment	(5,680,885)	(349,082)	689,396	(5,340,571)
Infrastructure	<u>(13,729,240)</u>	<u>(1,050,446)</u>	<u>-</u>	<u>(14,779,686)</u>
Total accumulated depreciation	<u>(24,493,143)</u>	<u>(1,624,687)</u>	<u>689,396</u>	<u>(25,428,434)</u>
Total capital assets, being depreciated net	<u>16,420,116</u>	<u>(150,802)</u>	<u>(624)</u>	<u>16,268,690</u>
Governmental activities, net	<u>\$ 19,927,829</u>	<u>\$ 1,946,375</u>	<u>\$ (497,410)</u>	<u>\$ 21,376,794</u>

Depreciation expense was charged to governmental activities as follows:

<u>Governmental activities:</u>	
General government	\$ 180,197
Security persons and property	276,496
Leisure time activity	164,806
Community environment and development	7,800
Transportation	995,388
Total depreciation expense - governmental activities	<u>\$ 1,624,687</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity at December 31, 2017 was as follows:

<u>Business-type activities:</u>	Balance <u>12/31/2016</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/2017</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 36,807	\$ -	\$ -	\$ 36,807
Construction in progress	6,376,203	2,243,146	(21,645)	8,597,704
Total capital assets, not being depreciated	<u>6,413,010</u>	<u>2,243,146</u>	<u>(21,645)</u>	<u>8,634,511</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,142,719	8,000	-	1,150,719
Buildings	13,869,214	16,000	-	13,885,214
Equipment	11,311,109	561,465	(140,015)	11,732,559
Infrastructure	35,200,498	770,420	-	35,970,918
Total capital assets, being depreciated	<u>61,523,540</u>	<u>1,355,885</u>	<u>(140,015)</u>	<u>62,739,410</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(931,114)	(22,074)	-	(953,188)
Buildings	(5,789,890)	(291,713)	-	(6,081,603)
Equipment	(8,825,121)	(316,172)	140,015	(9,001,278)
Infrastructure	(18,405,888)	(740,825)	-	(19,146,713)
Total accumulated depreciation	<u>(33,952,013)</u>	<u>(1,370,784)</u>	<u>140,015</u>	<u>(35,182,782)</u>
Total capital assets, being depreciated, net	<u>27,571,527</u>	<u>(14,899)</u>	<u>-</u>	<u>27,556,628</u>
Business-type activities capital assets, net	<u>\$ 33,984,537</u>	<u>\$ 2,228,247</u>	<u>\$ (21,645)</u>	<u>\$ 36,191,139</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 10 – CAPITAL LEASES

In years 2013, 2015, 2016 and 2017 the City entered into lease purchase agreements for a fire ladder truck, police cruisers, a mini excavator, sewer jet cleaner, new phone system and wheel loader.

General capital assets acquired by agreement have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a corresponding liability was recorded in the government-wide and business-type activity financial statements. Principal payments in 2017 totaled \$230,479. Principal and interest payments are made from the state highway fund, street fund, parks and recreation fund, aquatics fund, (nonmajor governmental funds), the general fund, capital improvement fund, water fund, sewer fund, sanitation fund and the storm water fund.

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

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2017:

Year Ending December 31,	Governmental Activities	Water Fund	Sewer Fund	Sanitation Fund	Storm Water Fund
2018	\$ 167,710	\$ 17,335	\$ 17,335	\$ 1,011	\$ 14,678
2019	134,168	17,335	17,335	1,011	14,679
2020	114,868	2,124	2,124	1,011	-
2021	107,387	1,061	1,061	506	-
2022	99,903	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum lease payments	624,036	37,855	37,855	3,539	29,357
Less: interest	<u>(44,792)</u>	<u>(2,816)</u>	<u>(2,816)</u>	<u>(541)</u>	<u>(1,609)</u>
Present value of future lease payments	<u>\$ 579,244</u>	<u>\$ 35,039</u>	<u>\$ 35,039</u>	<u>\$ 2,998</u>	<u>\$ 27,748</u>

NOTE 11 - SHORT-TERM OBLIGATIONS

The City's short-term note activity for the year ended December 31, 2017, was as follows:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 11 - SHORT-TERM OBLIGATIONS- (Continued)

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>
Water Fund:						
Bond anticipation note	4/26/2016	5.00%	\$ 650,000	\$ -	\$ (650,000)	\$ -
Bond anticipation note	4/27/2017	5.00%	-	300,000	-	300,000
Total			<u>\$ 650,000</u>	<u>\$ 300,000</u>	<u>\$ (650,000)</u>	<u>\$ 300,000</u>

The City's bond anticipation notes are backed by the full faith and credit of the City and have a maturity of one year.

NOTE 12 - LONG-TERM OBLIGATIONS

A. Governmental Activities

During 2017, the following changes occurred in the governmental activities long-term obligations:

Governmental activities:	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at 12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/17</u>	<u>Amounts Due in One Year</u>
<u>OPWC loans</u>							
Memorial reservoir spillway.	0.00%	12/31/18	\$ 27,656	\$ -	\$ (6,914)	\$ 20,742	\$ 20,742
East/west parkway construction	0.00%	07/01/22	34,375	-	(3,125)	31,250	9,375
Woodlawn avenue paving project phase III	0.00%	01/01/21	5,840	-	(730)	5,110	2,190
Woodlawn avenue paving project phase IV	0.00%	01/01/22	33,933	-	(3,393)	30,540	10,179
Bridge rehabilitation	0.00%	01/01/27	11,883	-	(594)	11,289	1,782
East main phase III	0.00%	07/01/23	6,500	-	(500)	6,000	1,500
Old state road widening phase I	0.00%	01/01/27	-	10,000	-	10,000	500
Milan avenue improvements	0.00%	01/01/27	-	20,560	-	20,560	-
Concrete street repair project	0.00%	07/01/33	9,243	-	(280)	8,963	840
Total OPWC loans			<u>129,430</u>	<u>30,560</u>	<u>(15,536)</u>	<u>144,454</u>	<u>47,108</u>
<u>Other long-term obligations</u>							
Police and fire pension	4.25%	11/1/2035	354,283	-	(12,973)	341,310	13,530
OWDA milan/chatham sewer project	3.90%	1/1/2022	390,993	-	(72,278)	318,715	75,124
Net pension liability			10,831,388	568,831	-	11,400,219	-
Compensated absences			1,061,914	146,095	(438,794)	769,215	48,007
Capital lease agreements			690,876	33,784	(145,416)	579,244	151,036
Total other long-term obligations			<u>13,329,454</u>	<u>748,710</u>	<u>(669,461)</u>	<u>13,408,703</u>	<u>287,697</u>
Total governmental activities			<u>\$ 13,458,884</u>	<u>\$ 779,270</u>	<u>\$ (684,997)</u>	<u>\$ 13,553,157</u>	<u>\$ 334,805</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences:

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

OPWC Loans:

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

The following is a summary of the City's future annual debt service principal requirements for the OPWC loans with the exception of Milan Avenue Improvement loan as this loan has not been finalized and an amortization schedule is not available:

<u>Year Ended December 31,</u>	<u>Principal</u>
2018	\$ 47,108
2019	17,745
2020	17,745
2021	16,285
2022	6,373
2023-2027	10,555
2028-2032	5,302
2033-2037	<u>2,781</u>
Total	<u>\$ 123,894</u>

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2017, the City's total debt margin was \$26,486,132 and the unvoted debt margin was \$13,730,831.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

OWDA Loans:

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

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 75,124	\$ 11,705	\$ 86,829
2019	78,082	8,746	86,828
2020	81,157	5,671	86,828
2021	<u>84,352</u>	<u>2,475</u>	<u>86,827</u>
Total	<u>\$ 318,715</u>	<u>\$ 28,597</u>	<u>\$ 347,312</u>

Police and Fire Pension Service Cost:

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

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 13,530	\$ 14,363	\$ 27,893
2019	14,111	13,782	27,893
2020	14,717	13,176	27,893
2021	15,350	12,545	27,895
2022	15,989	24,885	40,874
2023-2027	90,989	48,499	139,488
2028-2032	112,257	27,211	139,468
2033-2035	<u>64,367</u>	<u>4,111</u>	<u>68,478</u>
Total	<u>\$ 341,310</u>	<u>\$ 158,572</u>	<u>\$ 499,882</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Activities

During 2017, the following changes occurred in the business-type long-term obligations:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at 12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/17</u>	<u>Due in One Year</u>
<u>OPWC Loan</u>							
Pleasant street pump	0.00%	12/01/2024	\$ 57,800	\$ -	\$ (7,225)	\$ 50,575	\$ 21,675
Total OPWC loan			<u>57,800</u>	<u>-</u>	<u>(7,225)</u>	<u>50,575</u>	<u>21,675</u>
<u>OWDA loans</u>							
Ward/parsons sewer construction	3.75%	07/01/19	104,388	-	(40,595)	63,793	42,132
Milan/chatham sewer project	3.90%	01/01/22	586,491	-	(108,416)	478,075	112,686
Wastewater treatment plant improve.	3.25%	01/01/27	4,782,797	-	(395,005)	4,387,792	406,703
Corwin street sewer improve.	3.67%	07/01/27	378,563	-	(30,152)	348,411	31,269
Water treatment improvement	2.94%	07/01/27	403,077	-	(34,715)	368,362	35,853
West main waterline replacement	2.82%	07/01/32	731,488	-	(38,222)	693,266	39,308
Norwood avenue waterline	4.78%	07/01/28	225,984	-	(15,149)	210,835	15,882
Old state route waterline	3.79%	07/01/34	597,352	-	(24,599)	572,753	25,540
Pleasant street combined overflow	2.24%	01/01/37	4,804,612	1,781,278	(274,591)	6,311,299	-
Milan avenue waterline replacement	2.95%	07/01/35	457,704	-	(18,917)	438,787	19,479
Total OWDA loans			<u>13,072,456</u>	<u>1,781,278</u>	<u>(980,361)</u>	<u>13,873,373</u>	<u>728,852</u>
<u>Other long-term obligations:</u>							
Capital lease obligation			84,535	101,352	(85,063)	100,824	45,749
Net pension liability			3,264,668	1,411,499	-	4,676,167	-
Compensated absences			675,799	25,671	(224,245)	477,225	29,783
Total business-type activities			<u>\$ 17,155,258</u>	<u>\$ 3,319,800</u>	<u>\$ (1,296,894)</u>	<u>\$ 19,178,164</u>	<u>\$ 826,059</u>

Compensated Absences:

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

OPWC Loans:

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

<u>Year Ended December 31,</u>	<u>OPWC Loans Payable Principal</u>
2018	\$ 21,675
2019	14,450
2020	<u>14,450</u>
Total	<u>\$ 50,575</u>

OWDA Loans:

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

The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through 2037. The annual requirements to retire OWDA principal and interest, excluding the Pleasant street combined overflow project, as follows:

<u>Year Ended December 31,</u>	<u>OWDA Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 728,852	\$ 272,429	\$ 1,001,281
2019	730,636	228,643	959,279
2020	731,967	183,890	915,857
2021	755,720	160,371	916,091
2022	648,748	137,344	786,092
2023-2027	3,223,253	375,676	3,598,929
2028-2032	597,729	74,916	672,645
2033-2035	<u>145,169</u>	<u>6,041</u>	<u>151,210</u>
Total	<u>\$ 7,562,074</u>	<u>\$ 1,439,310</u>	<u>\$ 9,001,384</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The City's Pleasant street combined overflow project has not been finalized. Once this project is completed, OWDA will finalize the terms and provide an amortization schedule for future principal and interest repayment.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan.

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13- DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

	<u>State and Local</u>
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2017 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$552,630 for 2017. Of this amount, \$21,921 is reported as due to other governments.

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

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

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

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

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	Police	Fire
2017 Statutory Maximum Contribution Rates		
Employer	19.5 %	24.0 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.0 %	23.5 %
Post-employment Health Care Benefits	0.5	0.5
Total Employer	19.5 %	24.0 %
 Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was \$609,789 for 2017. Of this amount, \$44,858 is reported as an due to other governments.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all participating entities.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.0359290%	0.122379%	
Proportion of the net pension liability current measurement date	<u>0.0355504%</u>	<u>0.126526%</u>	
Change in proportionate share	<u>-0.000379%</u>	<u>0.004147%</u>	
Proportionate share of the net pension liability	\$ 8,062,356	\$ 8,014,030	\$ 16,076,386
Pension expense	1,597,175	966,924	2,564,099

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS - Traditional</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 10,928	\$ 978,211	\$ 989,139
Net difference between projected and actual earnings on pension plan investments	1,200,671	-	1,200,671
Changes of assumptions	1,278,788	-	1,278,788
Changes in employer's proportionate percentage/ difference between employer contributions	251,985	223,116	475,101
City contributions subsequent to the measurement date	552,630	609,789	1,162,419
Total deferred outflows of resources	<u>\$ 3,295,002</u>	<u>\$ 1,811,116</u>	<u>\$ 5,106,118</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 47,983	\$ 215,066	\$ 263,049
Changes in employer's proportionate percentage/ difference between employer contributions	210,783	-	210,783
Total deferred inflows of resources	<u>\$ 258,766</u>	<u>\$ 215,066</u>	<u>\$ 473,832</u>

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$1,162,419 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2018	\$ 1,034,758	\$ 269,637	\$ 1,304,395
2019	1,056,718	262,575	1,319,293
2020	427,371	234,752	662,123
2021	(35,241)	240,024	204,783
2022	-	(20,727)	(20,727)
Total	\$ 2,483,606	\$ 986,261	\$ 3,469,867

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, for the defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return.

<u>Asset Class</u>	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.75 %
Domestic equities	20.70	6.34
Real estate	10.00	4.75
Private equity	10.00	8.97
International equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate - The discount rate used to measure the total pension liability was 7.50%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. A discount rate of 8.00% was used in the previous measurement period. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$12,317,048	\$8,062,356	\$4,516,819

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016 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, 2016, are presented below:

Valuation date	January 1, 2016
Actuarial 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% simple

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

The most recent experience study was completed for the five-year period ended December 31, 2016. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2017 actuarial valuation.

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 expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.46 %	5.21 %
Non-US Equity	16.00	4.66	5.40
Core Fixed Income *	20.00	1.67	2.37
Global Inflation			
Protected Securities *	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	<u>120.00 %</u>		

Note: assumptions are geometric.

* levered 2x

** numbers include inflation

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

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 10,673,738	\$ 8,014,030	\$ 5,759,891

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 14 - POSTRETIREMENT BENEFIT PLANS – (Continued)

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2017, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2017 was 1.00%.

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. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2017, 2016, and 2015 were \$39,458, \$88,792, and \$94,914, respectively; 96.03% has been contributed for 2017 and 100% has been contributed for 2016 and 2015. The remaining 2017 post-employment health care benefits liability has been reported as pension and postemployment benefits obligation payable on the basic financial statements.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2017 thru December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$25,374 and \$29,641 for the year ended December 31, 2017, \$36,424 and \$25,670 for the year ended December 31, 2016, and \$37,635 and \$33,050, for the year ended December 31, 2015. 100% has been contributed for 2016 and 2015. 93.2% has been contributed for police and for firefighters for 2017. The remaining 2017 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 15 - RISK MANAGEMENT

A. Liability Insurance

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

B. Fidelity Bonds

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

C. Workers Compensation

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (831,618)
Net adjustment for revenue accruals	300,506
Net adjustment for expenditure accruals	(88,457)
Net adjustment for other sources/uses	200,000
Adjustment for encumbrances	184,947
GAAP basis	\$ (234,622)

NOTE 17 – TAX ABATEMENTS

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

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Section 5709, the City has established Community Reinvestment Areas (CRA) for any industrial or commercial property project improvements made to parcel(s) following specific return-on-investment formulas and guidelines approved by City Council. No taxes were abated at December 31, 2017.

Income Tax Abatement Programs

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

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 17 – TAX ABATEMENTS – (Continued)

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

City Council’s Incentive Criteria for Decision Making

The City has offered tax incentives and CRA abatements to various businesses based upon substantial project investment into the City. The City has created a return on investment formula it considers before entering into any such agreements. This return on investment formula considers the financial impact not only to the City but also other local governments in surrounding counties that may be impacted. Below is the information relevant to the disclosure of these programs for the year ended December 31, 2017:

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) for 2017 (In Actual Dollars)
<i>Income Tax Abatement Programs</i>	
- Manufacturing	\$40,086

Pursuant to Section 5709.82 of the Ohio Revised Code, the City of Norwalk and the Norwalk City School District and Edison Local School District in line with section 5709.82 of the Ohio Revised Code, created various compensation agreements. These agreements state various reimbursement percentages which require municipal income tax sharing when new income tax collections meet stipulations within the compensation agreements. Based on these agreements, the City compensated the Norwalk City School District \$12,661 and the Edison Local School District \$27,425 for the year ended December 31, 2017.

NOTE 18 - CONTINGENCIES

A. Grants

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2017.

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 18 – CONTINGENCIES – (Continued)

B. Litigation

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

NOTE 19 - OTHER COMMITMENTS

A. Encumbrances

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 184,947
General capital improvement	629,310
Fire station construction	2,816,350
Other governmental	<u>1,058,196</u>
Total governmental funds	<u>4,688,803</u>
Water	200,200
Sewer	322,209
Sanitation	59,081
Storm Water	<u>30,091</u>
Total proprietary funds	<u>611,581</u>
Total	<u>\$ 5,300,384</u>

B. Contractual

<u>Contract</u>	<u>Contract Amount</u>	<u>Paid as of 12/31/17</u>	<u>Remaining Commitment</u>
2017 Street Resurfacing	\$297,746	295,031	\$2,715
Milan Avenue Improvement	1,801,469	1,325,047	476,422
Jefferson Street Lift Station	283,500	281,666	1,834
Fire Station	3,431,000	366,934	3,064,066
Milan Avenue Drainage Project	349,923	211,646	138,277
Wooster Marshall Phase 6 Project	176,624	116,592	59,672

**CITY OF NORWALK
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

NOTE 20 - FUND BALANCE

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

Fund balance	General	General Capital Improvements	Fire Station Construction	Other Governmental	Total Governmental Funds
Nonspendable:					
Notes	\$ -	\$ -	\$ -	\$ 1,233,105	\$ 1,233,105
Materials & supplies inventory	-	-	-	76,908	76,908
Total nonspendable	-	-	-	1,310,013	1,310,013
Restricted:					
Capital improvements	-	-	2,816,350	786,600	3,602,950
Economic development	-	-	-	231,995	231,995
Police and fire protection	-	-	-	138,775	138,775
Courts	-	-	-	601,475	601,475
Transportation	-	-	-	669,950	669,950
Payroll stabilization	-	-	-	326,003	326,003
Other purposes	-	-	-	17,939	17,939
Total restricted	-	-	2,816,350	2,772,737	5,589,087
Committed:					
Capital improvements	-	1,180,065	-	185,822	1,365,887
Parks and recreation	-	-	-	76,424	76,424
Total committed	-	1,180,065	-	262,246	1,442,311
Community environment	659	-	-	-	659
Security persons & property	101,974	-	-	-	101,974
Transportation	1,598	-	-	-	1,598
Subsequent year appropriations	816,846	-	-	-	816,846
General government	81,172	-	-	-	81,172
Total assigned	1,002,249	-	-	-	1,002,249
Unassigned	1,826,432	-	-	(2,314)	1,824,118
Total fund balances	<u>\$ 2,828,681</u>	<u>\$ 1,180,065</u>	<u>\$ 2,816,350</u>	<u>\$ 4,342,682</u>	<u>\$ 11,167,778</u>

NOTE 21 – SUBSEQUENT EVENTS

On January 26, 2018, the City entered into a five year lease for the purchase of a new fire truck. The total lease amount was \$440,000 at an interest rate of 2.99%.

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.035504%	0.035929%	0.036343%	0.036343%
City's proportionate share of the net pension liability	\$ 8,062,356	\$ 6,223,356	\$ 4,348,406	\$ 4,279,741
City's covered-employee payroll	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.78%	103.15%	85.22%	82.45%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.12652600%	0.12237900%	0.12726800%	0.12726800%
City's proportionate share of the net pension liability	\$ 8,014,030	\$ 7,872,700	\$ 6,593,148	\$ 6,198,478
City's covered-employee payroll	\$ 2,624,892	\$ 2,487,940	\$ 2,676,671	\$ 2,495,305
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	305.31%	316.43%	246.32%	248.41%
Plan fiduciary net position as a percentage of the total pension liability	68.36%	66.77%	72.20%	73.00%

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>					
Contractually required contribution	\$ 552,630	\$ 532,751	\$ 723,986	\$ 612,330	\$ 674,768
Contributions in relation to the contractually required contribution	<u>(552,630)</u>	<u>(532,751)</u>	<u>(723,986)</u>	<u>(612,330)</u>	<u>(674,768)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 4,605,250	\$ 4,439,592	\$ 6,033,217	\$ 5,102,750	\$ 5,190,523
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	12.00%	13.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(SEE ACCOUNTANT'S COMPILATION REPORT)

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2017.

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016. For 2017, the Cost of Living Adjustment (COLA) was reduced to 0% effective July 1, 2017.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) the COLA was reduced to zero, (b) inflation assumptions were lowered from 2.75% to 2.50%, (c) Investment return assumptions were lowered from 7.75% to 7.45%, (d) total salary increases rates were lowered by decreasing merit component of the individual salary increases, as well as by 0.25% due to lower inflation, (e) payroll growth assumptions were lowered to 3.00%, (f) updated the health and disability mortality assumption to the "RP-2014" mortality tables with generational improvement scale MP-2016 and (g) rates of retirement, termination and disability were modified to better reflect anticipated future experience.