



Dave Yost • Auditor of State

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**DECEMBER 31, 2017
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CITY OF MUNROE FALLS
SUMMIT COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Roads & Bridge Fund, Fire Department Special Levy Fund, and EMS Special Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 17, 2018

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The management's discussion and analysis of the City of Munroe Falls' (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:

- In total, net position decreased \$794,648. Net position of governmental activities decreased \$389,568, which represents a 5.06 percent decrease from 2016. Net position of business-type activity decreased \$405,080, or 8.64 percent from 2016.
- Program specific revenues in the form of charges for services and operating assessments, operating grants and contributions and capital grants and contributions accounted for \$1,521,732, or 41.79 percent of total revenues of \$3,641,409. General revenues accounted for \$2,119,677 in revenue, or 58.21 percent of all revenues.
- The City had \$3,290,068 in expenses related to governmental activities; only \$780,823 of these expenses were offset by program specific charges for services, operating assessments and operating grants and contributions, and capital grants and contributions.
- During 2017, the general fund had \$1,654,446 in revenues and \$1,897,822 in expenditures, realizing a decrease in fund balance of \$243,376, which was driven primarily by expenditures for security of persons and property.
- Total long-term liabilities increased \$311,013 during 2017 mainly due to the net pension liability. The net pension liability increase represents the City's proportionate share of the Ohio Public Employees Retirement System (OPERS) traditional plan's and Ohio Police and Fire Pension Fund (OP&F) unfunded benefits. Changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

Using This Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Munroe Falls as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of the net position. Major 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Reporting the City of Munroe Falls as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2017?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in that net position. The changes in net position are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

The *Statement of Net Position* and the *Statement of Activities* are divided into the following categories:

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position
- Program Revenue and Expenses
- General Revenues
- Net Position Beginning of Year and End of Year

Reporting the City of Munroe Falls' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 10. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services and facilities provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Munroe Falls, the major funds are the general, road and bridge, police levy, fire special levy, EMS special levy and water fund.

Governmental Funds

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

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Proprietary Funds

The City's only proprietary fund (the water fund) is an enterprise fund which uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

Fiduciary Funds

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

The City as a Whole

The *Statement of Net Position* looks at the City as a whole. Table 1 provides a summary of the City's net position for 2017 compared to 2016.

Table 1
Net Position

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	\$4,339,432	\$3,943,816	\$2,180,966	\$2,502,949	\$6,520,398	\$6,446,765
Capital Assets, Net	6,118,238	6,195,900	3,544,406	3,746,514	9,662,644	9,942,414
<i>Total Assets</i>	<u>10,457,670</u>	<u>10,139,716</u>	<u>5,725,372</u>	<u>6,249,463</u>	<u>16,183,042</u>	<u>16,389,179</u>
Deferred Outflows of Resources						
Pension	795,970	697,512	127,612	132,363	923,582	829,875
Liabilities						
Current and Other Liabilities	112,768	53,500	33,791	27,388	146,559	80,888
Long-Term Liabilities:						
Due Within One Year	167,665	97,008	197,369	186,131	365,034	283,139
Due in More than One Year:						
Net Pension Liability	2,482,592	2,191,586	259,966	213,329	2,742,558	2,404,915
Other Amounts	336,293	251,980	1,072,239	1,265,077	1,408,532	1,517,057
<i>Total Liabilities</i>	<u>3,099,318</u>	<u>2,594,074</u>	<u>1,563,365</u>	<u>1,691,925</u>	<u>4,662,683</u>	<u>4,285,999</u>
Deferred Inflows of Resources						
Property Taxes	792,068	499,501	0	0	792,068	499,501
Pension	51,348	43,179	8,919	4,121	60,267	47,300
<i>Total Deferred Inflows of Resources</i>	<u>843,416</u>	<u>542,680</u>	<u>8,919</u>	<u>4,121</u>	<u>852,335</u>	<u>546,801</u>
Net Position						
Net Investment in Capital Assets	5,733,327	5,945,559	2,296,307	2,346,887	8,029,634	8,292,446
Restricted for:						
Capital Projects	30,174	30,647	0	31,544	30,174	62,191
Debt Service	0	349	0	0	0	349
Street Maintenance and Repair	577,997	334,308	0	0	577,997	334,308
Fire Department	452,637	498,858	0	0	452,637	498,858
EMS	492,355	416,780	0	0	492,355	416,780
Other Purposes	79,356	76,271	0	0	79,356	76,271
Unrestricted (Deficit)	(54,940)	397,702	1,984,393	2,307,349	1,929,453	2,705,051
<i>Total Net Position</i>	<u>\$7,310,906</u>	<u>\$7,700,474</u>	<u>\$4,280,700</u>	<u>\$4,685,780</u>	<u>\$11,591,606</u>	<u>\$12,386,254</u>

City of Munroe Falls, Ohio
Management's Discussion and Analysis
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The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

GASB 68 requires the net pension liability to equal the City's proportionate share of each plan's collective:

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

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

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

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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

By comparing assets, deferred outflows, liabilities and deferred inflows of resources, one can see the overall position of the City has decreased as evidenced by the decrease in net position. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

The decrease in net position was mainly due to an increase in net pension liability. The net pension liability increase represents the City's proportionate share of the OPERS traditional plan and OP&F unfunded benefits. Changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the years 2017 and 2016.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for Services and Operating Assessments	\$446,538	\$357,209	\$735,897	\$762,814	\$1,182,435	\$1,120,023
Operating Grants and Contributions	333,285	392,576	0	0	333,285	392,576
Capital Grants and Contributions	1,000	0	5,012	0	6,012	0
Total Program Revenues	780,823	749,785	740,909	762,814	1,521,732	1,512,599
General Revenues:						
Property Taxes	510,851	277,400	0	0	510,851	277,400
Income Tax	1,331,757	1,249,205	0	0	1,331,757	1,249,205
Grants and Entitlements not Restricted to Specific Programs	162,788	144,509	0	0	162,788	144,509
Unrestricted Contributions	5,042	5,528	0	0	5,042	5,528
Interest	31,733	59,628	0	0	31,733	59,628
Other	77,506	66,227	0	0	77,506	66,227
Total General Revenues	2,119,677	1,802,497	0	0	2,119,677	1,802,497
Total Revenues	\$2,900,500	\$2,552,282	\$740,909	\$762,814	\$3,641,409	\$3,315,096

(continued)

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 2
Changes in Net Position (continued)

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
<i>Program Expenses:</i>						
General Government	\$755,345	\$682,261	\$0	\$0	\$755,345	\$682,261
Security of Persons and Property	1,898,017	1,874,261	0	0	1,898,017	1,874,261
Transportation	505,655	454,165	0	0	505,655	454,165
Public Health and Welfare	58,502	19,570	0	0	58,502	19,570
Leisure Time Activities	62,556	131,322	0	0	62,556	131,322
Interest and Fiscal Charges	9,993	8,831	0	0	9,993	8,831
Water Operations	0	0	1,145,989	877,957	1,145,989	877,957
<i>Total Program Expenses</i>	<u>3,290,068</u>	<u>3,170,410</u>	<u>1,145,989</u>	<u>877,957</u>	<u>4,436,057</u>	<u>4,048,367</u>
Excess of Revenues Over (Under)						
Expenses	(389,568)	(618,128)	(405,080)	(115,143)	(794,648)	(733,271)
Transfers	0	(165,317)	0	165,317	0	0
Change in Net Position	(389,568)	(783,445)	(405,080)	50,174	(794,648)	(733,271)
Net Position Beginning of Year	7,700,474	8,483,919	4,685,780	4,635,606	12,386,254	13,119,525
Net Position End of Year	<u>\$7,310,906</u>	<u>\$7,700,474</u>	<u>\$4,280,700</u>	<u>\$4,685,780</u>	<u>\$11,591,606</u>	<u>\$12,386,254</u>

Governmental Activities

Several revenue sources fund the City's governmental activities with City income tax being the largest. An income tax of 2 percent is levied on substantially all income earned within the City. In addition, income of residents earned outside of the City is subject to income tax; however, credit is allowed for income taxes paid to other municipalities or a Joint Economic Development District, created pursuant to Ohio Revised Code 715.70, up to 100 percent of the City's current tax rate. Residents voted to enact an income tax increase of 0.25 percent on May 2, 2017, increasing the City's total tax rate from 2.00 to 2.25 percent and resulting in an increase in income tax effective January 1, 2018.

General revenues from property taxes and local government funds are also significant revenue generators. Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer at 35 percent of the appraised market value. All property is required to be revalued every six years with triennial updates. Property tax revenues increased by \$233,451 due to increased collections over 2016 due to a new road and bridge levy.

Capital grants and contributions increased from the prior year due to an increase in contributions and donations. Operating grants and contributions decreased from the prior year due to decreases in state and local government monies. Charges for services increased from the prior year due to an increase in EMS monies receivable. Investment income for 2017 was under the 2016 amount due to changes in the fair value of investments. Grants and entitlements not restricted to specific programs were higher than the prior year due to increased receipts from governmental sources.

General government expenses include such services as planning, zoning, administration, finance, legal, legislature, and engineering. These expenses were higher than the prior year primarily due to more general government and transportation spending.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The police department continues to operate efficiently utilizing full and part time personnel. The police department is funded primarily from revenues generated through the general fund. The fire department is primarily a volunteer force and works from one fire station. Operations are funded primarily through fire and EMS special levies and EMS billing collections. For 2017, security of persons and property spending was carefully monitored, but was higher than the prior year mostly due to retroactive pay that was paid at year end after several years of no pay increases as well as transitioning to full-time staffing of personnel.

Transportation costs include street lighting, snow and ice removal and the costs of maintaining the City streets. These costs were also higher than 2016 due to higher personal services expense.

The City's Funds

The City of Munroe Falls uses fund accounting as mandated by governmental legal requirements. The intent of accounting and reporting using this method is to demonstrate compliance with these finance related requirements.

Governmental Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,777,455 and expenditures of \$3,049,420. The most significant fund is the general fund with a year-end balance of \$1,263,456, which included an unassigned fund balance of \$1,093,100, compared to annual expenditures of \$1,897,822. The City focuses on its governmental funds to provide a financial picture of activities as they provide information on how the City did over a period of one year as well as where the City's funds stood at December 31, 2017. The information provided is useful to determine the City's available balances. At December 31, 2017, the City's combined ending governmental cash and cash equivalents balance was \$2,587,461. Along those same lines, the City's 2017 ending combined governmental fund balance is \$2,967,368.

The police levy special revenue fund had no operating activity in 2017, but is estimated to receive property taxes in the amount of \$268,398 for 2018 operations.

The road and bridge fund, fire levy and EMS levy had revenues of \$214,212, \$161,065 and \$294,132, respectively. The road and bridge fund had an increase in fund balance, fire special levy fund had a decrease of fund balance and the EMS special levy fund had an increase of fund balance, ending the year with fund balances of \$181,579, \$438,563 and \$425,397, respectively.

Business-Type Fund

As mentioned earlier, the City's only business-type activity is the water fund. Net position of the water fund decreased in 2017 by \$405,080. This was due to increasing costs and decreasing revenue.

The City continues the process of identifying the long-term maintenance and replacement needs of its water line infrastructure and other capital assets requirements. The City has contracted with an engineering firm to assess the City's water infrastructure and estimate costs for capital asset maintenance and repairs.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. All capital projects and requests for capital purchases are approved by Council within the annual budget. Any request to amend the budget is referred to the Finance and Audit Committee, and then submitted to Council for approval. The City's legal level of control has been established by Council at the personal services and other object level within each fund and department.

The most significant budgeted fund is the general fund. The general fund supports many major activities such as parks, zoning, finance, administrative, legal, as well as the legislative activities. Some major capital projects are funded with general fund dollars. By legislation, a percentage of income tax funds are transferred from the general fund to capital projects funds where the revenue and expenditures for the capital improvement are tracked and monitored. For the general fund, the original and final budgeted revenues were \$1,791,740 and 1,665,534 respectively. Actual revenues of \$1,674,375 were slightly higher than final budgeted revenues mainly due to higher than anticipated interest and miscellaneous revenue. The City continued to maintain a respectable level of liquidity in the general fund by carefully monitoring expenditures and thus maintaining unrestricted cash at year end. The variance from final budget to actual expenditures in general government was due to a concerted effort by the City to reduce expenditures.

Capital Assets and Debt Administration

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
Land	\$1,608,396	\$1,608,396	\$31,689	\$31,689	\$1,640,085	\$1,640,085
Construction in Progress	0	0	0	580,956	0	580,956
Land Improvements	157,346	163,951	0	0	157,346	163,951
Buildings and Improvements	2,160,341	2,230,065	489,931	508,795	2,650,272	2,738,860
Equipment	933,049	877,499	827,683	341,719	1,760,732	1,219,218
Infrastructure	1,259,106	1,315,989	2,195,103	2,283,355	3,454,209	3,599,344
Totals	<u>\$6,118,238</u>	<u>\$6,195,900</u>	<u>\$3,544,406</u>	<u>\$3,746,514</u>	<u>\$9,662,644</u>	<u>\$9,942,414</u>

The governmental and business-type capital assets for the City of Munroe Falls as of December 31, 2017, were \$6,118,238 and \$3,544,406, respectively. Both decreased from the prior year due to depreciation and deductions outpacing additions. Governmental additions were made to land improvements, building improvements and equipment, with deductions occurring for equipment. Business-type additions were limited to construction in progress and equipment. For additional information see Note 8 to the basic financial statements.

Debt Administration

On December 31, 2017, the City of Munroe Falls had \$1,648,000 in outstanding debt from general obligation bonds and capital leases. This represents obligations backed by the full faith and credit of the City. Table 4 summarizes bonds and leases outstanding as of December 31, 2017.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2017	2016	2017	2016	2017	2016
2011 Capital Asset Acquisition Bonds	\$25,000	\$50,000	\$295,000	\$320,000	\$320,000	\$370,000
Premium on Bonds	1,504	3,008	13,486	14,986	14,990	17,994
Capital Leases	359,911	200,341	953,099	1,111,171	1,313,010	1,311,512
Totals	<u>\$386,415</u>	<u>\$253,349</u>	<u>\$1,261,585</u>	<u>\$1,446,157</u>	<u>\$1,648,000</u>	<u>\$1,699,506</u>

The capital asset acquisition bonds were for an ambulance and waterline improvements. These bonds are paid from the EMS levy special revenue fund and the water enterprise fund. For additional information see Note 12 to the basic financial statements.

The capital leases were for various street and service department equipment, EMS equipment, a new meter reader system, waterline capital improvements, and radio system. For additional information, see Note 7 to the basic financial statements.

Current Financial Related Activities

With rising costs and continued cuts in state and local revenue, the City's financial stability has continued to decline. During 2017, voters approved a 2 mill road and bridge levy, a 2.8 mill police levy, and voted to increase income taxes from 2 percent to 2.25 percent. Although collections from the police levy and 0.25 percent income tax increase will not take effect until the January 2018, the City has improved its overall financial outlook. Based on the additional anticipated revenue, the City will be able to maintain the same level of general and safety services, and operate without further depleting reserves.

The City's administration is very committed to efficiency in operations and maintaining costs while providing residents with a multitude of services. In addition, the City will continue its transparency in reporting the financial position of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions regarding this report or financial information, please contact: Karen Reynolds, CGFM, Finance Director, 43 Munroe Falls Avenue, Munroe Falls, OH 44262, or email admin@munroefalls.com.

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City of Munroe Falls, Ohio

Statement of Net Position

December 31, 2017

	Governmental Activities	Business-Type Activity	Total*
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,587,461	\$1,748,943	\$4,336,404
Materials and Supplies Inventory	69,804	874	70,678
Accounts Receivable	152,926	148,403	301,329
Special Assessments Receivable	20,688	0	20,688
Intergovernmental Receivable	261,978	0	261,978
Prepaid Items	34,263	10,687	44,950
Inventory Held for Resale	0	272,059	272,059
Income Taxes Receivable	392,005	0	392,005
Property Taxes Receivable	820,307	0	820,307
Nondepreciable Capital Assets	1,608,396	31,689	1,640,085
Depreciable Capital Assets, Net	4,509,842	3,512,717	8,022,559
<i>Total Assets</i>	<u>10,457,670</u>	<u>5,725,372</u>	<u>16,183,042</u>
Deferred Outflows of Resources			
Deferred Outflows - Pension	795,970	127,612	911,231
Liabilities			
Accounts Payable	54,835	7,108	61,943
Accrued Wages	29,725	2,622	32,347
Intergovernmental Payable	23,810	15,886	39,696
Accrued Interest Payable	4,398	8,175	12,573
Long-Term Liabilities:			
Due Within One Year	167,665	197,369	365,034
Due In More Than One Year:			
Net Pension Liability (See Note 9)	2,482,592	259,966	2,742,558
Other Amounts Due in More Than One Year	336,293	1,072,239	1,408,532
<i>Total Liabilities</i>	<u>3,099,318</u>	<u>1,563,365</u>	<u>4,662,683</u>
Deferred Inflows of Resources			
Property Taxes	792,068	0	792,068
Deferred Inflows - Pension	51,348	8,919	47,916
<i>Total Deferred Inflows of Resources</i>	<u>843,416</u>	<u>8,919</u>	<u>839,984</u>
Net Position			
Net Investment in Capital Assets	5,733,327	2,296,307	8,029,634
Restricted for:			
Capital Projects	30,174	0	30,174
Street Maintenance and Repair	577,997	0	577,997
Fire Department	452,637	0	452,637
EMS	492,355	0	492,355
Other Purposes	79,356	0	79,356
Unrestricted (Deficit)	(54,940)	1,984,393	1,929,453
<i>Total Net Position</i>	<u>\$7,310,906</u>	<u>\$4,280,700</u>	<u>\$11,591,606</u>

*After Deferred Outflows and Inflows related to the change in internal proportionate share of pension-related items have been eliminated

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues			
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$755,345	\$105,382	\$305	\$0
Security of Persons and Property	1,898,017	316,429	54,067	0
Transportation	505,655	13,749	278,913	1,000
Public Health and Welfare	58,502	7,397	0	0
Leisure Time Activities	62,556	3,581	0	0
Interest and Fiscal Charges	9,993	0	0	0
<i>Total Governmental Activities</i>	3,290,068	446,538	333,285	1,000
Business-Type Activity:				
Water	1,145,989	735,897	0	5,012
<i>Total</i>	<u>\$4,436,057</u>	<u>\$1,182,435</u>	<u>\$333,285</u>	<u>\$6,012</u>

General Revenues

Property Taxes Levied for:
Street Maintenance and Repair
Fire Department
EMS
Income Tax Levied for:
General Purposes
Capital Outlay
Grants and Entitlements not Restricted to
Specific Programs
Unrestricted Contributions
Interest
Other

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activity	Total
(\$649,658)	\$0	(\$649,658)
(1,527,521)	0	(1,527,521)
(211,993)	0	(211,993)
(51,105)	0	(51,105)
(58,975)	0	(58,975)
(9,993)	0	(9,993)
(2,509,245)	0	(2,509,245)
0	(405,080)	(405,080)
(2,509,245)	(405,080)	(2,914,325)
217,473	0	217,473
137,521	0	137,521
155,857	0	155,857
1,178,231	0	1,178,231
153,526	0	153,526
162,788	0	162,788
5,042	0	5,042
31,733	0	31,733
77,506	0	77,506
2,119,677	0	2,119,677
(389,568)	(405,080)	(794,648)
7,700,474	4,685,780	12,386,254
\$7,310,906	\$4,280,700	\$11,591,606

City of Munroe Falls, Ohio

Balance Sheet

Governmental Funds

December 31, 2017

	General	Roads and Bridges	Police Levy	Fire Department Special Levy	EMS Special Levy
Assets					
Equity in Pooled Cash and Cash					
Equivalents	\$998,591	\$181,579	\$0	\$443,719	\$395,880
Restricted Assets:					
Equity in Pooled Cash and Cash					
Equivalents	4,096	0	0	0	0
Materials and Supplies Inventory	34,071	0	0	0	0
Accounts Receivable	44,926	0	0	0	108,000
Special Assessments Receivable	0	0	0	0	0
Intergovernmental Receivable	78,880	3,810	16,080	12,362	14,010
Prepaid Items	27,200	0	0	1,982	3,508
Income Taxes Receivable	347,778	0	0	0	0
Property Taxes Receivable	0	217,924	268,398	156,556	177,429
<i>Total Assets</i>	<u>\$1,535,542</u>	<u>\$403,313</u>	<u>\$284,478</u>	<u>\$614,619</u>	<u>\$698,827</u>
Liabilities					
Accounts Payable	\$42,099	\$0	\$100	\$162	\$3,091
Accrued Wages	3,839	0	14,421	4,957	2,862
Intergovernmental Payable	16,150	0	812	2,019	1,848
<i>Total Liabilities</i>	<u>62,088</u>	<u>0</u>	<u>15,333</u>	<u>7,138</u>	<u>7,801</u>
Deferred Inflows of Resources					
Property Taxes	0	207,063	268,398	148,410	168,197
Unavailable Revenue	209,998	14,671	16,080	20,508	97,432
<i>Total Deferred Inflows of Resources</i>	<u>209,998</u>	<u>221,734</u>	<u>284,478</u>	<u>168,918</u>	<u>265,629</u>
Fund Balances					
Nonspendable	65,367	0	0	1,982	3,508
Restricted	0	181,579	0	436,581	421,889
Committed	80,985	0	0	0	0
Assigned	24,004	0	0	0	0
Unassigned (Deficit)	1,093,100	0	(15,333)	0	0
<i>Total Fund Balances (Deficit)</i>	<u>1,263,456</u>	<u>181,579</u>	<u>(15,333)</u>	<u>438,563</u>	<u>425,397</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$1,535,542</u>	<u>\$403,313</u>	<u>\$284,478</u>	<u>\$614,619</u>	<u>\$698,827</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2017*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$2,967,368
		<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,118,238
\$563,596	\$2,583,365		
		Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
0	4,096	Delinquent Property Taxes	28,239
35,733	69,804	Income Taxes	174,952
0	152,926	Intergovernmental	194,245
20,688	20,688	Charges for Services	74,190
136,836	261,978	Total	471,626
1,573	34,263		
44,227	392,005	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(4,398)
0	820,307		
\$802,653	\$4,339,432	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
		General Obligation Bonds	(25,000)
\$9,383	\$54,835	Premium on Bonds	(1,504)
3,646	29,725	Capital Leases	(359,911)
2,981	23,810	Compensated Absences	(117,543)
		Total	(503,958)
16,010	108,370	The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
		Deferred Outflows - Pension	795,970
0	792,068	Net Pension Liability	(2,482,592)
112,937	471,626	Deferred Inflows - Pension	(51,348)
		Total	(1,737,970)
112,937	1,263,694		
		<i>Net Position of Governmental Activities</i>	\$7,310,906
37,306	108,163		
386,890	1,426,939		
249,510	330,495		
0	24,004		
0	1,077,767		
673,706	2,967,368		
\$802,653	\$4,339,432		

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Roads and Bridges	Police Levy	Fire Department Special Levy	EMS Special Levy
Revenues					
Property Taxes	\$0	\$206,612	\$0	\$138,071	\$156,481
Income Taxes	1,139,162	0	0	0	0
Special Assessments	0	0	0	0	0
Intergovernmental	163,123	7,600	0	22,994	32,185
Interest	28,215	0	0	0	0
Fines, Licenses and Permits	240,526	0	0	0	0
Charges for Services	1,197	0	0	0	105,466
Contributions and Donations	5,042	0	0	0	0
Other	77,181	0	0	0	0
<i>Total Revenues</i>	<u>1,654,446</u>	<u>214,212</u>	<u>0</u>	<u>161,065</u>	<u>294,132</u>
Expenditures					
Current:					
General Government	653,932	3,037	0	2,058	2,333
Security of Persons and Property	1,050,318	0	91,776	191,270	265,419
Transportation	108,742	29,596	0	0	0
Public Health and Welfare	58,502	0	0	0	0
Leisure Time Activities	26,328	0	0	0	0
Capital Outlay	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	0	0	29,488
Interest and Fiscal Charges	0	0	0	0	2,671
<i>Total Expenditures</i>	<u>1,897,822</u>	<u>32,633</u>	<u>91,776</u>	<u>193,328</u>	<u>299,911</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(243,376)	181,579	(91,776)	(32,263)	(5,779)
Other Financing Sources					
Inception of Capital Lease	0	0	76,443	0	20,932
<i>Net Change in Fund Balances</i>	(243,376)	181,579	(15,333)	(32,263)	15,153
<i>Fund Balances Beginning of Year</i>	<u>1,506,832</u>	<u>0</u>	<u>0</u>	<u>470,826</u>	<u>410,244</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$1,263,456</u></u>	<u><u>\$181,579</u></u>	<u><u>(\$15,333)</u></u>	<u><u>\$438,563</u></u>	<u><u>\$425,397</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$75,642)
		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 exceeded capital outlay in the current period:	
\$0	\$501,164	Capital Asset Additions	333,327
148,059	1,287,221	Current Year Depreciation	(403,468)
20,744	20,744	Total	(70,141)
269,584	495,486		
3,518	31,733		
4,415	244,941		
0	106,663		
6,955	11,997		
325	77,506		
<u>453,600</u>	<u>2,777,455</u>	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(7,521)
		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
21,217	682,577	Delinquent Property Taxes	9,687
3,033	1,601,816	Income Taxes	44,536
220,585	358,923	Intergovernmental	(5,368)
0	58,502	Charges for Services	74,190
0	26,328	Total	123,045
251,646	251,646		
32,265	61,753	Other financing sources, such as inception of capital lease, in the governmental funds increase long-term liabilities in the statement of net position.	(196,323)
5,204	7,875		
<u>533,950</u>	<u>3,049,420</u>	Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	61,753
(80,350)	(271,965)		
<u>98,948</u>	<u>196,323</u>	In the statement of activities, interest is accrued on outstanding bonds, and bond premiums are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when due:	
18,598	(75,642)	Accrued Interest	(3,622)
655,108	3,043,010	Amortization of Bond Premium	1,504
<u>\$673,706</u>	<u>\$2,967,368</u>	Total	(2,118)
		Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(21,904)
		Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	192,591
		Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(393,308)
		<i>Change in Net Position of Governmental Activities</i>	<u>(\$389,568)</u>

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Income Taxes	\$1,153,774	\$1,150,000	\$1,157,789	\$7,789
Intergovernmental	126,769	121,337	162,903	41,566
Interest	81,943	63,189	55,987	(7,202)
Fines, Licenses and Permits	313,618	241,838	214,276	(27,562)
Charges for Services	1,752	1,351	1,197	(154)
Contributions and Donations	7,380	5,691	5,042	(649)
Other	106,504	82,128	77,181	(4,947)
<i>Total Revenues</i>	<u>1,791,740</u>	<u>1,665,534</u>	<u>1,674,375</u>	<u>8,841</u>
Expenditures				
Current:				
General Government	685,771	759,671	652,023	107,648
Security of Persons and Property	1,137,393	1,137,393	1,067,770	69,623
Transportation	125,039	125,039	113,321	11,718
Public Health and Welfare	59,570	59,570	58,502	1,068
Leisure Time Activities	23,038	34,538	27,444	7,094
<i>Total Expenditures</i>	<u>2,030,811</u>	<u>2,116,211</u>	<u>1,919,060</u>	<u>197,151</u>
<i>Excess of Revenues Under Expenditures</i>	(239,071)	(450,677)	(244,685)	205,992
Other Financing Uses				
Transfers Out	(3,000)	(36,000)	(11,000)	25,000
<i>Net Change in Fund Balance</i>	(242,071)	(486,677)	(255,685)	230,992
<i>Fund Balance Beginning of Year</i>	1,089,827	1,089,827	1,089,827	0
Prior Year Encumbrances Appropriated	93,711	93,711	93,711	0
<i>Fund Balance End of Year</i>	<u>\$941,467</u>	<u>\$696,861</u>	<u>\$927,853</u>	<u>\$230,992</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Roads and Bridges Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$206,612	\$206,612	\$206,612	\$0
Intergovernmental	7,600	7,600	7,600	0
<i>Total Revenues</i>	<u>214,212</u>	<u>214,212</u>	<u>214,212</u>	<u>0</u>
Expenditures				
Current:				
General Government	3,600	3,600	3,037	563
Transportation	39,500	39,500	34,573	4,927
<i>Total Expenditures</i>	<u>43,100</u>	<u>43,100</u>	<u>37,610</u>	<u>5,490</u>
<i>Net Change in Fund Balance</i>	171,112	171,112	176,602	5,490
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$171,112</u></u>	<u><u>\$171,112</u></u>	<u><u>\$176,602</u></u>	<u><u>\$5,490</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Department Special Levy Fund
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$160,296	\$161,065	\$138,071	(\$22,994)
Intergovernmental	0	0	22,994	22,994
<i>Total Revenues</i>	<u>160,296</u>	<u>161,065</u>	<u>161,065</u>	<u>0</u>
Expenditures				
Current:				
General Government	2,000	2,060	2,058	2
Security of Persons and Property	145,000	194,940	191,045	3,895
<i>Total Expenditures</i>	<u>147,000</u>	<u>197,000</u>	<u>193,103</u>	<u>3,897</u>
<i>Net Change in Fund Balance</i>	13,296	(35,935)	(32,038)	3,897
<i>Fund Balance Beginning of Year</i>	<u>475,757</u>	<u>475,757</u>	<u>475,757</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$489,053</u>	<u>\$439,822</u>	<u>\$443,719</u>	<u>\$3,897</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
EMS Special Levy Fund
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$181,670	\$182,540	\$156,481	(\$26,059)
Intergovernmental	0	0	32,185	32,185
Charges for Services	160,000	160,000	144,061	(15,939)
<i>Total Revenues</i>	<u>341,670</u>	<u>342,540</u>	<u>332,727</u>	<u>(9,813)</u>
Expenditures				
Current:				
General Government	2,300	2,335	2,333	2
Security of Persons and Property	403,356	353,321	282,808	70,513
<i>Total Expenditures</i>	<u>405,656</u>	<u>355,656</u>	<u>285,141</u>	<u>70,515</u>
<i>Net Change in Fund Balance</i>	(63,986)	(13,116)	47,586	60,702
<i>Fund Balance Beginning of Year</i>	330,052	330,052	330,052	0
Prior Year Encumbrances Appropriated	12,656	12,656	12,656	0
<i>Fund Balance End of Year</i>	<u>\$278,722</u>	<u>\$329,592</u>	<u>\$390,294</u>	<u>\$60,702</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2017

	Water
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,748,943
Materials and Supplies Inventory	874
Accounts Receivable	148,403
Prepaid Items	10,687
Inventory Held for Resale	272,059
<i>Total Current Assets</i>	2,180,966
<i>Non-Current Assets:</i>	
Nondepreciable Capital Assets	31,689
Depreciable Capital Assets, Net	3,512,717
<i>Total Non-Current Assets</i>	3,544,406
<i>Total Assets</i>	5,725,372
Deferred Outflows of Resources	
Deferred Outflows - Pension	127,612
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	7,108
Accrued Wages	2,622
Intergovernmental Payable	15,886
Accrued Interest Payable	8,175
Compensated Absences Payable	4,704
General Obligation Bonds Payable	30,000
Capital Leases Payable	162,665
<i>Total Current Liabilities</i>	231,160
<i>Long-Term Liabilities (net of current portion):</i>	
Compensated Absences Payable	3,319
General Obligation Bonds Payable	278,486
Capital Leases Payable	790,434
Net Pension Liability	259,966
<i>Total Long-Term Liabilities</i>	1,332,205
<i>Total Liabilities</i>	1,563,365
Deferred Inflows of Resources	
Deferred Inflows - Pension	8,919
Net Position	
Net Investment in Capital Assets	2,296,307
Unrestricted	1,984,393
<i>Total Net Position</i>	\$4,280,700

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2017*

	Water
Operating Revenues	
Charges for Services	\$735,897
Operating Expenses	
Personal Services	314,941
Contractual Services	576,452
Materials and Supplies	5,452
Depreciation	202,676
<i>Total Operating Expenses</i>	1,099,521
<i>Operating Loss</i>	(363,624)
Non-Operating Expenses	
Interest and Fiscal Charges	(46,468)
<i>Loss before Capital Contributions</i>	(410,092)
Capital Contributions	5,012
<i>Change in Net Position</i>	(405,080)
<i>Net Position Beginning of Year</i>	4,685,780
<i>Net Position End of Year</i>	\$4,280,700

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2017

	Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$745,473
Cash Payments to Employees for Services	(246,047)
Cash Payments for Goods and Services	(588,903)
	(89,477)
<i>Net Cash Used for Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Capital Grants Received	5,012
Payments for Capital Acquisitions	(568)
Principal Paid on General Obligation Bonds	(25,000)
Principal Paid on Capital Leases	(158,072)
Interest Paid on General Obligation Bonds	(13,650)
Interest Paid on Capital Leases	(35,552)
	(227,830)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
	(317,307)
<i>Net Decrease in Cash and Cash Equivalents</i>	
	(317,307)
<i>Cash and Cash Equivalents Beginning of Year</i>	2,066,250
<i>Cash and Cash Equivalents End of Year</i>	\$1,748,943

(continued)

City of Munroe Falls, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2017

	Water
Reconciliation of Operating Loss to Net	
Cash used for Operating Activities	
Operating Loss	(\$363,624)
Adjustments:	
Depreciation	202,676
Decrease (Increase) in Assets:	
Accounts Receivable	9,576
Prepaid Items	(4,852)
Inventory Held for Resale	(48)
Decrease in Deferred Outflows - Pension	57,318
Increase (Decrease) in Liabilities:	
Accounts Payable	(6,527)
Contracts Payable	(86)
Accrued Wages	762
Compensated Absences Payable	2,972
Intergovernmental Payable	13,488
Net Pension Liability	5,820
Decrease in Deferred Inflows - Pension	(6,952)
<i>Net Cash Used for Operating Activities</i>	<i>(\$89,477)</i>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$57,601</u></u>
Liabilities	
Undistributed Monies	<u><u>\$57,601</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 1 – Description of the City and Reporting Entity

The City of Munroe Falls, Ohio, (the City) is incorporated as a municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services: security of persons and property (police and fire), public health and welfare, leisure time activities, transportation (highways and streets), water utility system and general government services.

The Mayor and City Council members are elected officials serving four-year terms. The department heads for police, fire, service, law and finance are appointed by the Mayor with approval from Council.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Munroe Falls this includes police, fire, emergency medical services, street construction, parks, water utility, general administrative services and a City Council.

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

The City participates in one insurance purchasing pool, the Ohio Municipal League group rating pool. This organization is discussed in Note 17.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The statement of net position presents the financial condition of the governmental and business-type activity 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 single business-type activity 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 program is self-financing or draws from the general revenues of the City.

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

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City's funds are classified 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 deferred outflows of resources, and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for and reported 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.

Roads and Bridges Fund The roads and bridges special revenue fund accounts for and reports property tax collections restricted for general construction, reconstruction, resurfacing, and repair of streets, roads and bridges.

Police Levy Fund The police levy fund accounts for and reports property tax collections restricted for police operations. This fund did not have any budgetary activity during 2017; therefore, budgetary information is not provided.

Fire Department Special Levy Fund The fire department special levy special revenue fund accounts for and reports property tax collections restricted for 50 percent of full-time fire department salaries and fringe benefits.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

EMS Special Levy Fund The EMS special levy special revenue fund accounts for and reports property tax collections restricted to support EMS services in the City and 50 percent of full-time fire department salaries and fringe benefits.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The City's only proprietary fund is an enterprise fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has one major enterprise fund.

Water Fund This fund accounts for the treatment and provision of water to the residents and commercial users of the City.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's fiduciary fund is an agency fund. The agency fund is used to account for deposits.

Measurement Focus

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

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

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of this fund is included on the statement of fund net position. The statement of revenues, expenses and 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 activity.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Basis of Accounting

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include pension reported in the government-wide statement of net position. The deferred outflows related to pension are explained in Note 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, intergovernmental grants and charges for services. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 9).

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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 City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2017, investments were limited to federal home loan bank bonds, federal home loan bank notes, federal national mortgage association bonds and federal agriculture mortgage corporation bonds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2017 amounted to \$28,215, which includes \$15,918 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Inventory Held for Resale

Inventory held for resale represent water that the City distributes to its customers within City limits.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund represent money set aside for unclaimed monies.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 enterprise fund are reported both in the business-type activity column of the government-wide statement of net position and in the fund.

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 \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the position or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives	Business-Type Activity Estimated Lives
Land Improvements	25-35 years	N/A
Buildings and Improvements	25-60 years	25-60 years
Equipment	4-25 years	4-25 years
Infrastructure	50-70 years	50-70 years

The City's infrastructure consists of streets, sidewalks, curbs and culverts. The City reported infrastructure used in governmental activities for the first time in 2003. The City only reports the amounts acquired after 2002.

Interfund Balances

Deferred inflows of resources and deferred outflows of resources from the change in internal proportionate share related to pension items are eliminated in the governmental and business-type activity columns of the statement of net position, except for any net residual amounts between governmental and business-type activity. These residual amounts are eliminated in the total column of the entity wide statement of net position.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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.

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 funds financial statements.

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

Fund Balance

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

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (ordinance or resolution, as both are equally legally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance or by State statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in the 2018 appropriated budget.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

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.

Net Position

Net position represents the difference between all other elements in the statement of net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes included resources which will be used for security of persons and property, transportation, public health and welfare, and leisure time activities.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are only charges for services for water services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Contributions of Capital

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund.

Estimates

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

Minimum Fund Balance Policy

Council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) in the general fund. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. If fund balance falls below the minimum target level because it has been used, essentially as a “revenue” source, as dictated by current circumstances, the policy provides for actions to replenish the amount to the minimum target level. Generally, replenishment is to occur within a three-year period.

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control has been established by Council at the personal services and other object level within each fund and department. For the other object level the Finance Director has been authorized to allocate appropriations within each department and any object level which he maintains on his books, other than personal services.

The police levy fund did not have any budgetary activity during 2017; therefore budgetary information is not provided.

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 3 – Change in Accounting Principle

For 2017, the City implemented the Governmental Accounting Standards Board’s (GASB) *Implementation Guide No. 2016-1*. These changes were incorporated in the City’s 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 – Budgetary Basis of Accounting

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

The major differences between the GAAP basis and the budget basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Investments are reported at fair value (GAAP) rather than cost (budget).
3. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statements.
4. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
5. Budgetary revenues and expenditures of the compensated absences fund are reclassified to the general fund for GAAP reporting.
6. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds.

Net Change in Fund Balance					
General and Major Special Revenue Funds					
	General	Roads and Bridges	Police Levy	Fire Special Levy	EMS Special Levy
GAAP Basis	(\$243,376)	\$181,579	(\$15,333)	(\$32,263)	\$15,153
Adjustment for Revenue Accruals	(7,019)	0	(76,443)	0	17,663
Unrecorded Cash	(3,543)	0	0	0	0
Beginning Fair Value Adjustment for Investments	(17,767)	0	0	0	0
Ending Fair Value Adjustment for Investments	37,258	0	0	0	0
Adjustment for Expenditure Accruals	(4,674)	0	91,776	225	20,356
Perspective Difference:					
Compensated Absences	11,000	0	0	0	0
Adjustment for Encumbrances	(27,564)	(4,977)	0	0	(5,586)
Budget Basis	<u>(\$255,685)</u>	<u>\$176,602</u>	<u>\$0</u>	<u>(\$32,038)</u>	<u>\$47,586</u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 5 – Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

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, or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Federal National Mortgage Association, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and

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8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

The City has passed an ordinance allowing the City to invest monies not required to be used for a specific period of six months or more in the following:

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

At year end, the City had \$400 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

Investments

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

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value - Level Two Inputs:				
Federal Home Loan Bank Bonds	\$743,607	Less than one years	AA+	43.08 %
Federal Home Loan Bank Notes	173,416	Less than two years	AA+	10.05
Federal Home Loan Bank Notes	287,903	Less than four years	AA+	16.68
Federal National Mortgage Association Bonds	88,265	Less than two years	AA+	5.11
Federal National Mortgage Association Bonds	148,198	Less than three years	AA+	8.59
Federal Agriculture Mortgage Corporation Bonds	234,948	Less than two years	AA+	13.61
Federal Agriculture Mortgage Corporation Bonds	49,696	Less than three years	AA+	2.88
Total Investments	<u>\$1,726,033</u>			<u>100.00 %</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The preceding chart identifies the City's recurring fair value measurements as of December 31, 2017. All of the City's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

City of Munroe Falls, Ohio
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Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk. The Federal Home Loan Bank Bonds, Federal Home Loan Bank Notes, Federal National Mortgage Association Bonds, and Federal Agriculture Mortgage Corporation Bonds also carry a rating of AA+ by Standard & Poor's. The City has no investment policy that addresses credit risk.

Concentration of Credit Risk. With the exception of U.S. Treasury securities, federal government agency securities, and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution per the Council approved credit risk policy.

Note 6 – Receivables

Receivables at December 31, 2017, consisted primarily of municipal income taxes, property taxes, accounts, special assessments for street lighting, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full and are expected to be received within one year; however, property taxes and income taxes, although ultimately collectible, include some portions of delinquencies that will not be collected within one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of 2016 taxes.

2017 real property taxes are levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2017 public utility property taxes, which became a lien December 31, 2016, are levied after October 1, 2017, and collected in 2018 with real property taxes.

The tax rate for all City operations for the year ended December 31, 2017, was \$5.20 per \$1,000 of assessed value, which is lower than the prior year due to the nonrenewal of a levy. The assessed values of real and tangible personal property upon which 2017 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$105,443,120
Public Utility	1,506,730
Total Valuation	<u>\$106,949,850</u>

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The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of Munroe Falls. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2017, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2017 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Municipal Income Taxes

The City levies a municipal income tax of 2 percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of up to 100 percent on the income earned outside of the City and paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually.

Additional increases in the City’s income tax rate would require voter approval. The income tax, by ordinance, is allocated, after expenditures for collections, with a minimum of 12 percent to the capital improvement fund and the remainder to the general fund. Amounts above the 12 percent may be allocated depending on the capital improvement projections.

Intergovernmental Receivable

A summary of the governmental activities’ principal items of intergovernmental receivables follows:

Governmental Activities:	
Gas Tax Distribution	\$89,084
Local Government	61,237
Motor Vehicle License Tax	47,752
Homestead and Rollback	46,262
Stow-Munroe Falls CSD	17,643
Total	<u><u>\$261,978</u></u>

Note 7 – Capital Leases

In prior years, the City entered into leases for a dump truck, excavators, a leaf vacuum, water meters and meter readers, EMS cots, salt spreaders, and a waterline replacement project. In 2017, the City entered into a lease for a radio system. The lease obligations meet the criteria of a capital lease and have been recorded on the government-wide statements. Capital assets were capitalized at the present value of the minimum lease payments at the time the lease was entered into. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Asset:		
Equipment	\$719,055	\$791,407
Infrastructure	0	639,593
Less: Accumulated depreciation	(255,252)	(116,095)
Total	<u><u>\$463,803</u></u>	<u><u>\$1,314,905</u></u>

City of Munroe Falls, Ohio
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The leases provide for minimum, annual lease payments as follows:

	Governmental Activities	Business-Type Activity
2018	\$112,476	\$193,019
2019	111,739	192,416
2020	111,006	191,817
2021	39,675	194,206
2022	12,435	80,844
2023-2025	0	212,007
Total Minimum Lease Payment	387,331	1,064,309
Less: Amount Representing Interest	(27,420)	(111,210)
Present Value of Minimum Lease Payments	<u>\$359,911</u>	<u>\$953,099</u>

Note 8 – Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
<i>Governmental Activities:</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,608,396	\$0	\$0	\$1,608,396
<i>Capital Assets, being depreciated</i>				
Land Improvements	365,288	14,277	0	379,565
Buildings and Improvements	3,862,059	17,402	0	3,879,461
Equipment	2,885,003	301,648	(199,353)	2,987,298
Infrastructure	1,692,308	0	0	1,692,308
<i>Total Capital Assets, being depreciated</i>	<u>8,804,658</u>	<u>333,327</u>	<u>(199,353)</u>	<u>8,938,632</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(201,337)	(20,882)	0	(222,219)
Buildings and Improvements	(1,631,994)	(87,126)	0	(1,719,120)
Equipment	(2,007,504)	(238,577)	191,832	(2,054,249)
Infrastructure	(376,319)	(56,883)	0	(433,202)
<i>Total Accumulated Depreciation</i>	<u>(4,217,154)</u>	<u>(403,468) *</u>	<u>191,832</u>	<u>(4,428,790)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>4,587,504</u>	<u>(70,141)</u>	<u>(7,521)</u>	<u>4,509,842</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,195,900</u>	<u>(\$70,141)</u>	<u>(\$7,521)</u>	<u>\$6,118,238</u>

City of Munroe Falls, Ohio
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* Depreciation expense was charged to governmental activities as follows:

General Government	\$37,736
Security of Persons and Property	211,861
Transportation	127,721
Leisure Time Activities	26,150
Total Depreciation Expense	\$403,468

Capital asset activity for business-type activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
<i>Business-Type Activity:</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$31,689	\$0	\$0	\$31,689
Construction in Progress	580,956	568	(581,524)	0
<i>Total Capital Assets, not being depreciated</i>	612,645	568	(581,524)	31,689
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	986,446	0	0	986,446
Equipment	845,188	581,524	0	1,426,712
Infrastructure	3,947,222	0	0	3,947,222
<i>Total Capital Assets, being depreciated</i>	5,778,856	581,524	0	6,360,380
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(477,651)	(18,864)	0	(496,515)
Equipment	(503,469)	(95,560)	0	(599,029)
Infrastructure	(1,663,867)	(88,252)	0	(1,752,119)
<i>Total Accumulated Depreciation</i>	(2,644,987)	(202,676)	0	(2,847,663)
<i>Total Capital Assets being depreciated, Net</i>	3,133,869	378,848	0	3,512,717
<i>Business-Type Activity Capital Assets, Net</i>	\$3,746,514	\$379,416	(\$581,524)	\$3,544,406

Note 9 – Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. 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, including requirements for reduced and unreduced benefits):

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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 3 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	13.0 %
Post-employment Health Care Benefits	<u>1.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$96,792 for 2017. Of this amount, \$10,668 is reported as an intergovernmental payable.

City of Munroe Falls, Ohio
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Plan Description – Ohio Police & Fire Pension Fund (OP&F)

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

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. (See OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits.)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	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 \$115,157 for 2017. Of this amount, \$12,368 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. 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:

	OPERS	OP&F	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0057240%	0.0227780%	
Prior Measurement Date	0.0061580%	0.0208030%	
Change in Proportionate Share	-0.0004340%	0.0019750%	
Proportionate Share of the Net Pension Liability	\$1,299,823	\$1,442,735	\$2,742,558
Pension Expense	\$271,342	\$197,510	\$468,852

City of Munroe Falls, Ohio
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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</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$1,762	\$408	\$2,170
Changes of assumptions	206,168	0	206,168
Net difference between projected and actual earnings on pension plan investments	193,574	140,300	333,874
Changes in proportion and differences between City contributions and proportionate share of contributions	15,602	141,468	157,070
City contributions subsequent to the measurement date	<u>96,792</u>	<u>115,157</u>	<u>211,949</u>
Total Deferred Outflows of Resources	<u><u>\$513,898</u></u>	<u><u>\$397,333</u></u>	<u><u>\$911,231</u></u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$7,736	\$3,322	\$11,058
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>36,858</u>	<u>0</u>	<u>36,858</u>
Total Deferred Inflows of Resources	<u><u>\$44,594</u></u>	<u><u>\$3,322</u></u>	<u><u>\$47,916</u></u>

\$211,949 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:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2018	\$158,114	\$83,204	\$241,318
2019	152,772	83,204	235,976
2020	67,301	70,490	137,791
2021	(5,675)	20,401	14,726
2022	0	19,799	19,799
Thereafter	<u>0</u>	<u>1,756</u>	<u>1,756</u>
Total	<u><u>\$372,512</u></u>	<u><u>\$278,854</u></u>	<u><u>\$651,366</u></u>

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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 periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS' 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 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For 2016, 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.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

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

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 percent for 2016.

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

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
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	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the 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 was applied to all periods of projected benefit payments to determine the total pension liability.

City of Munroe Falls, Ohio
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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 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) 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	\$1,985,770	\$1,299,823	\$728,207

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, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
	plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 percent

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
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The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric.

* levered 2x

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

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$1,921,553	\$1,442,735	\$1,036,932

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact to the City's net pension liability.

Note 10 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (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 postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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 Board in Chapter 145 of the Ohio Revised Code.

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$7,446, \$14,798, and \$15,355, respectively. For 2017, 90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

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

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

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

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also 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 contribution to OP&F for the years ended December 31, 2017, 2016, and 2015 were \$2,855, \$2,309, and \$2,475, respectively, of which \$705, \$571, and \$622, respectively, was allocated to the healthcare plan. For 2017, 90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Note 11 – Other Employee Benefits

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service. Current policy credits vacation leave on the hiring date anniversary of each year for all full time employees. Unused vacation is cumulative and may not exceed 200 hours carryover per year for all full time employees. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Sick leave is earned for all full time employees at the rate of one and one-quarter days each month. Unused sick leave may be accumulated up to 2,080 hours. Upon retirement, the first 960 hours accumulated is compensated at 50 percent and the remaining hours at 25 percent.

Full time patrol officers and sergeants earn sick leave at a rate of ten hours for each completed month of service. Full time patrol officers and sergeants may accumulate an unlimited amount of sick leave. Upon retirement, the first 2,000 hours are compensated at 50 percent and all hours over 2,000 are compensated at 25 percent.

Insurance

The City provides health insurance to its employees through Summacare. All employees currently contribute 15 percent towards their health premium.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 12 – Long-Term Obligations

Original issue amounts and interest rates of the City’s debt issues are as follows:

Debt Issue	Interest Rate	Original Issue	Date of Maturity
Governmental Activities:			
2011 Capital Asset Acquisition Serial Bonds	2 - 4%	\$170,000	December 1, 2018
Business-Type Activity:			
2011 Capital Asset Acquisition Serial Bonds	2 - 4.5	440,000	December 1, 2026

The changes in long-term obligations during the year were as follows:

	Balance 12/31/2016	Issued	Retired	Balance 12/31/2017	Amounts Due In One Year
Governmental Activities:					
2011 Capital Asset Acquisition Bonds	\$50,000	\$0	(\$25,000)	\$25,000	\$25,000
Premium on Bonds	3,008	0	(1,504)	1,504	0
Capital Leases	200,341	196,323	(36,753)	359,911	100,131
Compensated Absences	95,639	57,159	(35,255)	117,543	42,534
Net Pension Liability:					
OPERS	853,315	186,542	0	1,039,857	0
OPF	1,338,271	104,464	0	1,442,735	0
Total Governmental Activities	\$2,540,574	\$544,488	(\$98,512)	\$2,986,550	\$167,665
	Balance 12/31/2016	Issued	Retired	Balance 12/31/2017	Amounts Due In One Year
Business-Type Activity:					
2011 Capital Asset Acquisition Bonds	\$320,000	\$0	(\$25,000)	\$295,000	\$30,000
Premium on Bonds	14,986	0	(1,500)	13,486	0
Capital Leases	1,111,171	0	(158,072)	953,099	162,665
Compensated Absences	5,051	6,031	(3,059)	8,023	4,704
Net Pension Liability:					
OPERS	213,329	46,637	0	259,966	0
Total Business-Type Activity	\$1,664,537	\$52,668	(\$187,631)	\$1,529,574	\$197,369

On September 1, 2011, the City issued \$610,000 of General Obligation Bonds for the purpose of acquiring capital assets. These bonds were issued at a premium of \$33,002, which will be amortized over the life of the bonds. Payments are made from the bond retirement debt service fund and the water fund. These bonds are part of a larger issuance of \$6.5 million in fractionalized interest bonds relating to the Ohio Capital Asset Financing Program with six other political subdivisions. These bonds are several and not joint obligations. None of the political subdivisions has any obligation to pay the principal of or interest on the bonds of any other political subdivision. Payment by a political subdivision of principal and interest on its portion of the bonds will fully discharge that subdivision of its obligations.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

In October 2014, the City entered into a capital lease to purchase equipment through FirstMerit Bank, N.A. The cost of the equipment and the amount of the lease is \$700,000, with an interest rate of 3.38 percent. Annual payments of principal and interest are to be made through October 2021. Payments are to be paid out of the City's capital improvement fund and the water fund.

In April 2015, the City entered into a capital lease to purchase waterlines through FirstMerit Bank, N.A. The amount of the lease is \$600,000, with an interest rate of 3.22 percent. Annual payments of principal and interest are to be made through October 2025. Payments are to be paid out of the City's water fund.

In June 2015, the City entered into a capital lease to purchase two snow plow trucks and two EMS cots through Peoples Bank. The amount of the lease is \$314,250, with an interest rate of 2.95 percent. Annual payments of principal and interest are to be made through March 2022. Payments are to be paid out of the City's EMS special levy fund, capital improvement fund and the water fund.

In May 2017, the City entered into a capital lease to purchase a radio system through Motorola Solutions. The amount of the lease is \$196,323, with an interest rate of 3.88 percent. Annual payments of principal and interest are to be made through July 2020. Payments are to be paid out of the City's police levy fund, EMS special levy fund and capital improvement fund.

The compensated absences liability will be paid out of the City's general fund, street construction, maintenance and repair fund, fire department special levy fund, EMS special levy fund, and water fund. There is no repayment schedule for the net pension liability. Employer pension contributions are made from the following funds: general fund, street construction, maintenance and repair fund, fire department special levy fund, EMS special levy fund, and water fund. For additional information related to the net pension liability see Note 9.

As of December 31, 2017, the City's overall legal debt margin was \$11,208,867 and the unvoted legal debt margin was \$5,566,375. Principal and interest requirements to retire the outstanding debt at December 31, 2017, are as follows:

	Governmental Activities		Business-Type Activity	
	General Obligation		General Obligation	
	Bonds		Bonds	
	Principal	Interest	Principal	Interest
2018	\$25,000	\$1,000	\$30,000	\$12,650
2019	0	0	30,000	11,450
2020	0	0	30,000	10,100
2021	0	0	30,000	8,750
2022	0	0	30,000	7,550
2023-2026	0	0	145,000	16,475
Totals	\$25,000	\$1,000	\$295,000	\$66,975

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Note 13 – Contingencies

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experiences, management believes such refunds, if any, would not be material.

Litigation

On July 13, 2017, the City was ordered to pay Beck Energy Corporation's attorney fees in the amount of \$45,000 due to a court case concerning zoning. The City has since then filed an appeal to this claim. This appeal is still in progress.

Note 14 – Significant Commitments

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Governmental Activities:	
General	\$27,564
Roads and Bridges	4,977
EMS Special Levy	5,586
Other Governmental Funds	<u>74,336</u>
	112,463
Business-Type Activity:	
Water	<u>85,815</u>
Total	<u><u>\$198,278</u></u>

Note 15 – Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2017, the City's property and liability insurance carrier was Selective Insurance Company.

The City insured its property, including building and contents, up to \$11,199,865 with a \$500 deductible. In addition, the City carried insurance for general liability, auto liability, public officials liability, and law enforcement liability with limits of \$1,000,000 per occurrence. The City also carried inland marine insurance for scheduled equipment with a \$500 deductible and crime insurance covering employee theft per loss up to \$250,000, with a \$1,000 deductible. The umbrella liability has a \$5,000,000 limit per occurrence and an annual aggregate limit of \$5,000,000. The aggregate limit applies separately to each line of coverage and per location. There has not been a significant reduction in coverage from the prior year. Claims have not exceeded this commercial coverage in any of the past three years.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Workers' Compensation

The City participates in the Ohio Municipal League's (OML) group retrospective rating pool (See Note 17). The intent of the OML is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management by virtue of its grouping and representation with other participants. The workers' compensation experience rating of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the group. Each participant pays its workers' compensation premium to the State based on the rate for the OML group rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OML. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the OML. Participation in the OML is limited to cities that can meet the OML's selection criteria. The firm of Comp Management Incorporated provides administrative, cost control and actuarial services to the OML.

Note 16 – Accountability

The police levy special revenue fund concluded 2017 with a deficit fund balance of \$10,764 resulting from adjustments for accrued liabilities. The general fund is liable for any deficit and provides transfers when cash is required, not when accruals occur.

Note 17 – Insurance Purchasing Pool

The Ohio Municipal League has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the City and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management Incorporated to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on claims experience of each member as compared to the total claims experience of the group.

Note 18 – Fund Balances

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Fund Balances	General	Roads and Bridges	Police Levy	Fire Department Special Levy	EMS Special Levy	Other Governmental Funds	Total
Nonspendable:							
Inventory	\$34,071	\$0	\$0	\$0	\$0	\$35,733	\$69,804
Prepays	27,200	0	0	1,982	3,508	1,573	34,263
Unclaimed Monies	4,096	0	0	0	0	0	4,096
Total Nonspendable	65,367	0	0	1,982	3,508	37,306	108,163
Restricted to:							
Public Safety	0	0	0	436,581	421,889	15,727	874,197
Debt Service	0	0	0	0	0	4,133	4,133
Transportation	0	181,579	0	0	0	336,856	518,435
Capital Improvements	0	0	0	0	0	30,174	30,174
Total Restricted	0	181,579	0	436,581	421,889	386,890	1,426,939
Committed to:							
Compensated Absences	80,985	0	0	0	0	0	80,985
Public Safety	0	0	0	0	0	62,196	62,196
Capital Improvements	0	0	0	0	0	187,314	187,314
Total Committed	80,985	0	0	0	0	249,510	330,495
Assigned to:							
2018 Operations	8,564	0	0	0	0	0	8,564
Purchases on Order:							
Administration	11,600	0	0	0	0	0	11,600
Police	362	0	0	0	0	0	362
Fire	748	0	0	0	0	0	748
Streets	2,730	0	0	0	0	0	2,730
Total Assigned	24,004	0	0	0	0	0	24,004
Unassigned (Deficit)	1,093,100	0	(15,333)	0	0	0	1,077,767
Total Fund Balances (Deficit)	\$1,263,456	\$181,579	(\$15,333)	\$438,563	\$425,397	\$673,706	\$2,967,368

Required Supplementary Information

City of Munroe Falls, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
*Last Four Years (1) **

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.00572400%	0.00615800%	0.00579400%	0.00579400%
City's Proportionate Share of the Net Pension Liability	\$1,299,823	\$1,066,644	\$698,821	\$683,037
City's Covered Payroll	\$739,917	\$767,736	\$710,308	\$678,300
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.67%	138.93%	98.38%	100.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each year were determined as of the City's measurement date, which is the prior year end.

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

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.02277800%	0.02080300%	0.01924640%	0.01924640%
City's Proportionate Share of the Net Pension Liability	\$1,442,735	\$1,338,271	\$997,044	\$937,360
City's Covered Payroll	\$461,829	\$495,035	\$407,370	\$432,746
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	312.40%	270.34%	244.75%	216.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each year were determined as of the City's measurement date, which is the prior year end.

City of Munroe Falls, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Five Years (1)

	2017	2016	2015	2014	2013
Contractually Required Contribution	\$96,792	\$88,790	\$92,128	\$85,237	\$88,179
Contributions in Relation to the Contractually Required Contribution	(96,792)	(88,790)	(92,128)	(85,237)	(88,179)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0
City Covered Payroll	\$744,554	\$739,917	\$767,736	\$710,308	\$678,300
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2013 is not available. An additional column will be added each year.

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

	2017	2016	2015	2014
Contractually Required Contribution	\$115,157	\$93,139	\$97,801	\$80,545
Contributions in Relation to the Contractually Required Contribution	(115,157)	(93,139)	(97,801)	(80,545)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0
City Covered Payroll	\$571,084	\$461,829	\$495,035	\$407,370
Contributions as a Percentage of Covered Payroll	20.16%	20.17%	19.76%	19.77%

2013	2012	2011	2010	2009	2008
\$73,076	\$66,710	\$74,220	\$82,074	\$84,424	\$82,648
(73,076)	(66,710)	(74,220)	(82,074)	(84,424)	(82,648)
\$0	\$0	\$0	\$0	\$0	\$0
\$432,746	\$477,808	\$532,642	\$594,646	\$613,196	\$600,230
16.89%	13.96%	13.93%	13.80%	13.77%	13.77%

City of Munroe Falls, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2017

Changes in Assumptions - OPERS

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported for 2017 use mortality rates 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.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.



Dave Yost • Auditor of State

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

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 17, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

September 17, 2018

City of Munroe Falls



James W. Armstrong, Mayor

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Munroe Falls, Ohio 44262
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Karen L. Reynolds
Director of Finance
[*kreynolds@munroefalls.com*](mailto:kreynolds@munroefalls.com)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Income Tax Allocation – The City did not allocate and transfer a minimum of 12% of net income tax collections from the General Fund to the Capital Improvement Fund.	Fully Corrected	The City properly allocated and transferred a minimum of 12% of net income tax collections from the General Fund to the Capital Improvement Fund.
2016-002	Financial Statement Adjustments – Material financial statement errors were noted in the prior year audit.	Partially Corrected	As noted in the management letter, financial statement errors were noted for accrued wages and budgetary expenditures, however they were not material.

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CITY OF MUNROE FALLS

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 16, 2018