



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF BEDFORD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2017**

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**CITY OF BEDFORD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

City of Bedford Heights
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146

To the Members of 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 Bedford Heights, Cuyahoga 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.

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www.ohioauditor.gov

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 Bedford Heights, Cuyahoga 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, Fire Levy and Issue 24 Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019, 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.



Keith Faber
Auditor of State

Columbus, Ohio

March 12, 2019

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

The discussion and analysis of the City of Bedford Heights' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal 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 are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2017 are as follows:

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$17,694,152.
- ◆ Total assets increased by \$1,928,635 and deferred outflows of resources decreased by \$638,503 in 2017. The largest increase was cash and cash equivalents of \$2,187,184. This increase was offset by a decrease in capital assets, net of \$877,472. The decrease in deferred outflows of resources was related to the pension activity.
- ◆ Total liabilities decreased by \$251,282 and deferred inflows of resources increased by \$694,158 in 2017. The main fluctuation in liabilities related to accounts payable (down \$165,128). The increase in deferred inflows of resources was related to the pension activities.
- ◆ In total, net position in governmental activities decreased by \$26,255 during 2017.

Using this Annual Financial Report

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City of Bedford Heights as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information on all the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system is reported here.

Fund Financial Statements - Reporting the City of Bedford Heights' Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund Balance Sheet and the government fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, for the general fund, fire levy special revenue fund, Issue 24 levy special revenue fund, and the capital improvements capital projects fund, all of which are considered to be major funds.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Proprietary Funds

The City maintains three proprietary funds; one enterprise fund and two internal service funds. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. Because these activities benefit governmental rather than business functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 29 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 34 of this report.

Government-wide Financial Analysis - City of Bedford Heights as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

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 (assets and deferred outflows of resources minus liabilities and deferred inflows of resources)
- Program expenses and revenues
- General revenues
- Net position beginning and end of year

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Table 1 provides a summary of the City's net position for 2017 as compared to 2016.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 13,434,464	\$ 11,671,112	\$ 6,359,461	\$ 5,315,151	\$ 19,793,925	\$ 16,986,263
Capital assets, net	16,465,264	17,470,705	7,023,486	6,895,517	23,488,750	24,366,222
Net pension asset	<u>11,570</u>	<u>12,893</u>	<u>4,909</u>	<u>5,141</u>	<u>16,479</u>	<u>18,034</u>
Total assets	<u>29,911,298</u>	<u>29,154,710</u>	<u>13,387,856</u>	<u>12,215,809</u>	<u>43,299,154</u>	<u>41,370,519</u>
Deferred outflows of resources – pension	<u>4,034,103</u>	<u>4,856,637</u>	<u>804,870</u>	<u>620,839</u>	<u>4,838,973</u>	<u>5,477,476</u>
Liabilities:						
Current liabilities	700,484	730,256	109,313	216,561	809,797	946,817
Long-term liabilities						
Due within one year	1,284,317	1,199,258	265,000	244,409	1,549,317	1,443,667
Other amounts due in more than one year	1,902,482	2,151,803	468,929	306,771	2,371,411	2,458,574
Net pension liability	<u>17,958,525</u>	<u>18,538,460</u>	<u>2,069,427</u>	<u>1,622,241</u>	<u>20,027,952</u>	<u>20,160,701</u>
Total liabilities	<u>21,845,808</u>	<u>22,619,777</u>	<u>2,912,669</u>	<u>2,389,982</u>	<u>24,758,477</u>	<u>25,009,759</u>
Deferred inflows of resources:						
Property taxes	4,193,530	4,136,590	-	-	4,193,530	4,136,590
Pension	<u>1,321,548</u>	<u>644,210</u>	<u>170,420</u>	<u>210,540</u>	<u>1,491,968</u>	<u>854,750</u>
Total deferred inflows of resources	<u>5,515,078</u>	<u>4,780,800</u>	<u>170,420</u>	<u>210,540</u>	<u>5,685,498</u>	<u>4,991,340</u>
Net position:						
Net investment in capital assets	15,527,325	16,365,540	6,904,969	6,663,471	22,432,294	23,029,011
Restricted for:						
Capital projects	459,298	331,209	-	-	459,298	331,209
Debt service	424,172	391,190	-	-	424,172	391,190
Streets	158,070	159,615	-	-	158,070	159,615
Public safety	336,953	200,733	-	-	336,953	200,733
Other purposes	1,504	1,504	-	-	1,504	1,504
Unrestricted	<u>(10,322,807)</u>	<u>(10,839,021)</u>	<u>4,204,668</u>	<u>3,572,655</u>	<u>(6,118,139)</u>	<u>(7,266,366)</u>
Total Net Position	\$ <u>6,584,515</u>	\$ <u>6,610,770</u>	\$ <u>11,109,637</u>	\$ <u>10,236,126</u>	\$ <u>17,694,152</u>	\$ <u>16,846,896</u>

The net pension liability (NPL) is the largest liability reported by the City at December 31, 2017 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension and the net pension asset.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

GASB 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 NPL. 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.

The NPL under GASB 68 equals the City's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *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 NPL. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the NPL, 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 NPL is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

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

As a result of GASB 68, the City is reporting a net pension asset/liability and deferred outflows/inflows of resources related to pension on the accrual basis of accounting.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Total assets increased \$1,928,635. Cash and cash equivalents increased by \$2,187,184 which was offset by a decrease in net capital assets of \$877,472. The increase in cash and cash equivalents is the product of multiple items in 2017. The first major item that increased was sewer charge for services in 2017, due to increased sewer rates, which caused cash to increase about \$488,000. The second major item that increased grant revenues related to transportation in 2017, due to City of Cleveland Waterline related to the Columbus Road project, which caused cash to increase about \$405,000. The decrease in capital assets is a direct result of the City reducing capital activity in 2017 which led to depreciation exceeding net additions.

The total net position of the City increased \$847,256. The following factors were most responsible for this increase:

- An increase in cash and cash equivalents of \$2,187,184
- A decrease in capital assets of \$877,472
- A decrease in deferred outflows of resources – pension of \$638,503
- A decrease in accounts payable of \$165,128
- An increase in deferred inflows of resources of \$694,158

The City makes concerted efforts to maximize the return on investments of its cash and cash equivalents and uses these funds to provide liquidity for planned future capital purchases. Due to the interest rates in the past, the investments have remained in liquid money market accounts, i.e. STAR Ohio and Huntington National Bank. However, even though the State statute allows for investments with maturities of five years or less, the City has not invested in any instrument with a maturity of more than one year.

Another tool used by the City to reduce its long-term liability is to pay off accumulated sick leave for police and fire employees. Upon the request of a police or fire employee with over ten years of service, accumulated sick time may be paid out on an annual basis. This allows the City to pay accumulated sick hours at the current hourly rate as opposed to paying for it at a higher rate in the future at the time of retirement. The employees benefit by having funds available to them currently with the opportunity to invest them and potentially gain a higher rate of return as opposed to receiving payment at a future date.

The City is also a member of N.O.R.M.A. Self Insurance Pool, Inc. for liability insurance and workers' compensation. Significant savings in premiums have resulted from being a member of the above referenced insurance pool. In addition, the City conducts random drug testing of employees with CDL licenses which aids in reducing workers compensation premiums.

The net position of the business-type activities increased \$873,511 in 2017. The City generally can only use this net position to finance the continuing operations of the sewer system.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

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
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program revenues						
Charges for services	\$ 1,700,129	\$ 1,432,637	\$ 4,014,720	\$ 3,461,795	\$ 5,714,849	\$ 4,894,432
Operating grants	31,469	11,609	-	-	31,469	11,609
Capital grants	<u>1,064,930</u>	<u>54,250</u>	<u>29,133</u>	<u>30,333</u>	<u>1,094,063</u>	<u>84,583</u>
Total program revenues	<u>2,796,528</u>	<u>1,498,496</u>	<u>4,043,853</u>	<u>3,492,128</u>	<u>6,840,381</u>	<u>4,990,624</u>
General revenues						
Property taxes	4,372,156	4,292,203	-	-	4,372,156	4,292,203
Income taxes	9,833,862	9,629,804	-	-	9,833,862	9,629,804
Grants and entitlements	1,336,191	1,357,673	-	-	1,336,191	1,357,673
Investment earnings	6,632	3,304	1,912	1,017	8,544	4,321
Other	<u>26,266</u>	<u>40,032</u>	<u>-</u>	<u>35,063</u>	<u>26,266</u>	<u>75,095</u>
Total revenues	<u>18,371,635</u>	<u>16,821,512</u>	<u>4,045,765</u>	<u>3,528,208</u>	<u>22,417,400</u>	<u>20,349,720</u>
Program expenses						
General government	4,545,318	4,452,266	-	-	4,545,318	4,452,266
Security of persons and property	8,576,676	8,857,918	-	-	8,576,676	8,857,918
Public health and welfare	266,592	260,440	-	-	266,592	260,440
Leisure time activities	1,354,577	1,379,916	-	-	1,354,577	1,379,916
Community development	850,137	295,021	-	-	850,137	295,021
Basic utility services	673,244	638,094	-	-	673,244	638,094
Transportation	2,102,072	1,772,146	-	-	2,102,072	1,772,146
Interest and fiscal charges	29,274	22,018	-	-	29,274	22,018
Sewer	-	-	<u>3,172,254</u>	<u>2,916,229</u>	<u>3,172,254</u>	<u>2,916,229</u>
Total program expenses	<u>18,397,890</u>	<u>17,677,819</u>	<u>3,172,254</u>	<u>2,916,229</u>	<u>21,570,144</u>	<u>20,594,048</u>
Change in net position	(26,255)	(856,307)	873,511	611,979	847,256	(244,328)
Net position, beginning of year	<u>6,610,770</u>	<u>7,467,077</u>	<u>10,236,126</u>	<u>9,624,147</u>	<u>16,846,896</u>	<u>17,091,224</u>
Net position, end of year	\$ <u>6,584,515</u>	\$ <u>6,610,770</u>	\$ <u>11,109,637</u>	\$ <u>10,236,126</u>	\$ <u>17,694,152</u>	\$ <u>16,846,896</u>

Governmental Activities

Several revenue sources fund our governmental activities with the City's property and income tax being the largest contributors. The City's income tax revenue source is the largest contributor with a rate of two percent on gross income which has not changed since 1982. Residents of the City who work in another community and pay the withholding tax for that community receive a 100% tax credit on their City tax, up to a limit of two percent. During 2017, the revenues generated from this tax amounted to \$9,833,862. The City continues to enforce a delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Security of persons and property and general government are the major activities of the City generating 71.3% of the governmental expenses. As of December 31, 2017 the fire department is comprised of 24 members. There is one fire chief, one assistant fire chief, three captains, three lieutenants, and 17 firefighters. While 21 members of the department are certified paramedics, there are three firefighters who serve as Emergency Medical Technicians, in accordance with the collective bargaining agreement. The department's roster is intended to not be less than 18 paramedics, which allows for the response of two ambulances that can provide advance lifesaving skills. Three members of the department are on the regional hazardous material response team and one is a HCO (Hazardous Command Officer). The staffing of the department is done in three shifts that rotate 24 hour tours. During this time, they conduct daily training that consists of building walkthroughs, attending continuing education classes, performing joint exercises with neighboring departments and watching training videos. After large or difficult emergencies, the shifts do a post incident critique to improve services. In 2017, the department responded to 2,406 calls with 74% relating to emergency medical services.

The department is very proactive in public education efforts. Fire extinguisher training and CPR/first aid training is provided to the business community regularly. Additionally, the department teaches at schools, safety town and has assisted residences with installing working smoke detectors in their homes.

The amount the department spent on overtime expenses during 2017 was \$60,758 as compared to \$256,972 during 2016. The total cost of operating the Fire and EMS department during 2017 was \$2,852,311, which is in the Fire Levy Fund. The City annually transfers into the Fire Levy Fund the difference between the revenue generated from the 3 mill fire levy and the operating expenses incurred. In 2017, the transfer from the general fund was \$2,240,000.

The City spent approximately \$552,000 on its annual road program entailing major and minor resurfacing of the various streets in Bedford Heights. The annual road program is funded from the 2-mill Street Construction Levy.

Business-Type Activities

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$873,511.

Net program revenues exceeded program expenses in the amount of \$871,599 for the sewer operations during 2017 as charges for services continue to outpace operating expenditures.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$22,569,611 and expenditures and other financing uses of \$21,609,833. The net change in fund balance for the year in the City's most significant fund, the general fund, showed an increase in fund balance of \$629,394 which resulted in a year-end fund balance of \$4,026,444.

The capital improvements fund reflected a decrease in fund balance of \$237,308, which resulted in a fund balance of \$359,451. The issue 24 levy fund ending fund balance increased \$135,966 during 2017. The fire levy fund and nonmajor government funds ending fund balance increased \$100,266 and \$331,460, respectively, during the year as well.

Overall the revenue base continued to meet City obligations. To combat the uncertain economic times, the City has taken cost-cutting measures to ensure its viability for many years to come. Revenue forecasting will become more difficult as estimates are more imprecise now than they have been in the recent past. The City's expectation is that it may lose property taxes due to the decrease in home values. In 2017, the City experienced a decrease in income tax revenues, which is estimated to increase slightly for 2018.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. City Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held City Council meeting, which is open to the public; the budget is adopted by City Council. City Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the general fund, final budget-basis revenue and other financing sources of \$12,171,998 decreased from the original budget estimates of \$12,213,219 due to lower than originally expected intergovernmental revenues, charges for services, licenses and permits, fines and forfeitures and miscellaneous income. The original appropriations for the general fund were \$12,316,196, including other financing uses. The final appropriations, including other financing uses, were \$12,274,706. The City historically budgets to expend nearly 100% of their available resources, when actually 100.8% of available resources were budgeted to be expended in 2017. The City's actual expenditures ended \$464,129 below the final budgeted amount.

The City's ending unobligated budgetary fund balance was \$552,534 higher than the final budgeted amount mostly due lower than expected general government expenditures.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Business-Type Funds

The City's major enterprise fund consists of the sewer treatment fund. The basic financial statements for the major fund are included in this report.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer treatment fund. The basic proprietary fund financial statements can be found on pages 29 through 32 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2017, the City had \$23,488,750 invested in land, buildings and improvements, furniture, fixtures and equipment, vehicles, and infrastructure.

Table 3 shows fiscal 2017 balances of capital assets as compared to 2016:

Table 3
 Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,231,201	\$ 2,231,201	\$ 99,200	\$ 99,200	\$ 2,330,401	\$ 2,330,401
Buildings and improvements	20,467,590	20,223,974	5,008,277	4,818,539	25,475,867	25,042,513
Furniture, fixtures and equipment	6,186,469	6,134,412	7,709,912	7,702,547	13,896,381	13,836,959
Vehicles	3,356,910	3,239,278	361,445	361,445	3,718,355	3,600,723
Infrastructure	15,791,408	15,791,408	7,123,811	6,851,320	22,915,219	22,642,728
Less: accumulated depreciation	<u>(31,568,314)</u>	<u>(30,149,568)</u>	<u>(13,279,159)</u>	<u>(12,937,534)</u>	<u>(44,847,473)</u>	<u>(43,087,102)</u>
Total Capital Assets	\$ <u>16,465,264</u>	\$ <u>17,470,705</u>	\$ <u>7,023,486</u>	\$ <u>6,895,517</u>	\$ <u>23,488,750</u>	\$ <u>24,366,222</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition insofar as financial resources allow. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame (5 to 6 years). Prior to 2009, the City's practice was to replace as many as three-to-four police vehicles each year, typically through leasing, to replenish the safety fleet. In more recent years, the City has reduced the replacement of police vehicles due to limited availability of funds and has minimized the practice of leasing police vehicles.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

With regards to the infrastructure, the City's engineering, public works and water reclamation departments maintain a comprehensive listing of all the streets and sewer lines in the City. As part of the City's annual road maintenance program, the engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or cracksealed and in the case of concrete roads, either replaced or repaired. After approval from City Council, the projects are bid out in early to late spring to get the best possible pricing from contractors. This program is paid for out of the street construction levy fund and capital improvements fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. The City follows a five-year capital plan in place that provides for street, sanitary and storm improvements and maintaining our current structures. See Note 9 for more information on capital assets.

Debt

At December 31, 2017, the City had \$23,948,680 in outstanding debt, compensated absences, matured compensated absences, claims payable and net pension liability, of which \$300,000 was in general obligation bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
 Outstanding Debt at Year End

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 183,300	\$ 350,900	\$ 116,700	\$ 229,100	\$ 300,000	\$ 580,000
Capital leases payable	138,198	96,051	1,817	2,946	140,015	98,997
OPWC loans payable	616,441	658,214	272,491	-	888,932	658,214
Compensated absences	1,926,122	1,830,374	342,921	319,134	2,269,043	2,149,508
Claims payable	322,738	415,522	-	-	322,738	415,522
Net pension liability	17,958,525	18,538,460	2,069,427	1,622,241	20,027,952	20,160,701
<i>Total</i>	<u>\$ 21,145,324</u>	<u>\$ 21,889,521</u>	<u>\$ 2,803,356</u>	<u>\$ 2,173,421</u>	<u>\$ 23,948,680</u>	<u>\$ 24,062,942</u>

At December 31, 2017, the City's overall legal debt margin was \$23,118,892. At year-end, the outstanding general obligation debt was \$300,000. Other obligations include capital leases, Ohio Public Works Commission loans, accrued vacation and sick leave, matured compensated absences, claims payable and the net pension liability. More detailed information about the City's long-term liabilities is presented in Notes 10 through 13 of the basic financial statements.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Current Related Financial Activities

In November 2010, the citizens of Bedford Heights approved a Charter Amendment to establish a levy of 8.9 mills to be used to pay the costs and expenses of operating the City's police, fire and emergency medical services, commencing in 2010 and first collections beginning in 2011. The levy of 8.9 mills, known as Issue 24 on the November 2, 2010 ballot, was passed by 69.9% of the voters. First year real estate tax collections in 2011 were \$1,971,068. In 2012, real estate tax collections from this levy were \$1,883,672. During fiscal year 2013, following a county-wide re-appraisal, collections from this levy were \$1,797,903, which represented a decrease of \$85,769 compared to the preceding year. In 2014, the City collected \$1,660,857 related to this levy, which was a decrease from 2013 of \$137,046. The real estate tax revenue from the Issue 24 Levy for fiscal year 2015 amounted to \$1,650,920 which represented a slight decrease over the previous reporting period. The real estate tax revenue from the Issue 24 Levy for fiscal year 2016 amounted to \$1,746,422 which represented a \$95,502 increase over the previous reporting period. The real estate tax revenue from the Issue 24 Levy for fiscal year 2017 amounted to \$1,775,570 which represented a \$29,148 increase over the previous reporting period. Based on estimates provided by the Cuyahoga County Auditor's office, real property tax revenue from the Issue 24 levy for fiscal year 2018 is estimated to be \$1,867,618. Despite the fluctuations in recent years and the overall "flat line" in real estate tax revenue, the City of Bedford Heights' systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Bedford Heights with full disclosure of the financial position of the City.

Contacting the City of Bedford Heights' Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact the finance department, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, telephone (440) 786-3200.

City of Bedford Heights, Ohio

Statement of Net Position

December 31, 2017

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets:			
Cash and cash equivalents	\$ 4,741,745	\$ 4,964,811	\$ 9,706,556
Accounts receivable	136,657	1,281,174	1,417,831
Intergovernmental receivable	1,038,904	16,860	1,055,764
Supplies and materials inventory	68,170	43,160	111,330
Prepaid assets	59,749	53,456	113,205
Property taxes receivable	4,688,458	-	4,688,458
Income taxes receivable	2,600,781	-	2,600,781
Assets held for resale	100,000	-	100,000
Non-depreciable capital assets	2,231,201	99,200	2,330,401
Depreciable assets, net	14,234,063	6,924,286	21,158,349
Net pension asset	<u>11,570</u>	<u>4,909</u>	<u>16,479</u>
Total assets	<u>29,911,298</u>	<u>13,387,856</u>	<u>43,299,154</u>
Deferred outflows of resources:			
Pension	<u>4,034,103</u>	<u>804,870</u>	<u>4,838,973</u>
Liabilities:			
Accounts payable	265,043	38,388	303,431
Accrued wages and benefits	434,881	70,572	505,453
Accrued interest payable	560	353	913
Long term liabilities:			
Due within one year	1,284,317	265,000	1,549,317
Due in more than one year:			
Other amounts due in more than one year	1,902,482	468,929	2,371,411
Net pension liability	<u>17,958,525</u>	<u>2,069,427</u>	<u>20,027,952</u>
Total liabilities	<u>21,845,808</u>	<u>2,912,669</u>	<u>24,758,477</u>
Deferred inflows of resources:			
Property taxes	4,193,530	-	4,193,530
Pensions	<u>1,321,548</u>	<u>170,420</u>	<u>1,491,968</u>
Total deferred inflows of resources	<u>5,515,078</u>	<u>170,420</u>	<u>5,685,498</u>
Net position:			
Net investment in capital assets	15,527,325	6,904,969	22,432,294
Restricted for:			
Capital projects	459,298	-	459,298
Debt service	424,172	-	424,172
Streets	158,070	-	158,070
Public safety	336,953	-	336,953
Other purposes	1,504	-	1,504
Unrestricted (deficit)	<u>(10,322,807)</u>	<u>4,204,668</u>	<u>(6,118,139)</u>
Total net position	<u>\$ 6,584,515</u>	<u>\$ 11,109,637</u>	<u>\$ 17,694,152</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Activities

For the Year Ended December 31, 2017

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 4,545,318	\$ 537,386	\$ -	\$ -
Security of persons and property	8,576,676	501,099	31,469	-
Public health and welfare	266,592	5,369	-	-
Leisure time activities	1,354,577	320,947	-	-
Community development	850,137	335,328	-	621,778
Basic utility services	673,244	-	-	-
Transportation	2,102,072	-	-	443,152
Interest and fiscal charges	29,274	-	-	-
Total governmental activities	<u>18,397,890</u>	<u>1,700,129</u>	<u>31,469</u>	<u>1,064,930</u>
Business-type activities:				
Sewer	<u>3,172,254</u>	<u>4,014,720</u>	<u>-</u>	<u>29,133</u>
 Total	 \$ <u>21,570,144</u>	 \$ <u>5,714,849</u>	 \$ <u>31,469</u>	 \$ <u>1,094,063</u>

General revenues:

Property taxes and other local taxes levied for:

 General purposes

 Special revenues

 Debt service

 Capital projects

Income taxes levied for:

 General purposes

 Grants and entitlements not restricted to specific programs

 Investment income

 Miscellaneous income

Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

The accompanying notes are an integral part of the financial statements

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business Type Activities	Total
\$ (4,007,932)	\$ -	\$ (4,007,932)
(8,044,108)	-	(8,044,108)
(261,223)	-	(261,223)
(1,033,630)	-	(1,033,630)
106,969	-	106,969
(673,244)	-	(673,244)
(1,658,920)	-	(1,658,920)
<u>(29,274)</u>	<u>-</u>	<u>(29,274)</u>
(15,601,362)	-	(15,601,362)
<u>-</u>	<u>871,599</u>	<u>871,599</u>
<u>(15,601,362)</u>	<u>871,599</u>	<u>(14,729,763)</u>
1,311,746	-	1,311,746
2,486,293	-	2,486,293
176,307	-	176,307
397,810	-	397,810
9,833,862	-	9,833,862
1,336,191	-	1,336,191
6,632	1,912	8,544
<u>26,266</u>	<u>-</u>	<u>26,266</u>
<u>15,575,107</u>	<u>1,912</u>	<u>15,577,019</u>
(26,255)	873,511	847,256
<u>6,610,770</u>	<u>10,236,126</u>	<u>16,846,896</u>
<u>\$ 6,584,515</u>	<u>\$ 11,109,637</u>	<u>\$ 17,694,152</u>

City of Bedford Heights, Ohio

Balance Sheet Governmental Funds

December 31, 2017

	<u>General</u>	<u>Fire Levy</u>
Assets:		
Cash and cash equivalents	\$ 1,999,526	\$ 252,507
Accounts receivable	35,183	-
Intergovernmental receivable	187,733	27,539
Supplies and materials inventory	9,491	-
Prepaid assets	59,749	-
Property taxes receivable	1,584,228	642,254
Income taxes receivable	2,600,781	-
Interfund receivable	426,142	-
Assets held for resale	<u>-</u>	<u>-</u>
Total assets	\$ <u>6,902,833</u>	\$ <u>922,300</u>
Liabilities:		
Accounts payable	\$ 84,421	\$ -
Interfund payable	-	-
Accrued wages and benefits	<u>122,998</u>	<u>77,606</u>
Total liabilities	<u>207,419</u>	<u>77,606</u>
Deferred inflows of resources:		
Property taxes	1,416,992	574,456
Unavailable revenue	<u>1,251,978</u>	<u>95,337</u>
Total deferred inflows of resources	<u>2,668,970</u>	<u>669,793</u>
Fund balances:		
Nonspendable	75,076	-
Restricted	164,300	174,901
Committed	175,232	-
Assigned	84,087	-
Unassigned	<u>3,527,749</u>	<u>-</u>
Total fund balances	<u>4,026,444</u>	<u>174,901</u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u>6,902,833</u>	\$ <u>922,300</u>

The accompanying notes are an integral part of the financial statements

<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 276,375	\$ 818,131	\$ 1,163,685	\$ 4,510,224
-	-	101,474	136,657
81,698	440,137	301,797	1,038,904
-	-	58,679	68,170
-	-	-	59,749
1,905,357	428,169	128,450	4,688,458
-	-	-	2,600,781
-	-	-	426,142
-	100,000	-	100,000
\$ <u>2,263,430</u>	\$ <u>1,786,437</u>	\$ <u>1,754,085</u>	\$ <u>13,629,085</u>
\$ -	\$ 132,538	\$ 41,643	\$ 258,602
-	426,142	-	426,142
92,483	-	141,794	434,881
92,483	558,680	183,437	1,119,625
1,704,222	382,970	114,890	4,193,530
282,833	485,336	295,871	2,411,355
1,987,055	868,306	410,761	6,604,885
-	-	58,679	133,755
183,892	-	895,395	1,418,488
-	359,451	205,813	740,496
-	-	-	84,087
-	-	-	3,527,749
183,892	359,451	1,159,887	5,904,575
\$ <u>2,263,430</u>	\$ <u>1,786,437</u>	\$ <u>1,754,085</u>	\$ <u>13,629,085</u>

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City of Bedford Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities

December 31, 2017

Total Governmental fund balances \$ 5,904,575

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 16,465,264

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property and other taxes	\$ 494,928	
Municipal income taxes	941,430	
Charges for services	68,063	
Intergovernmental	<u>906,934</u>	
Total		2,411,355

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (560)

Internal service funds are used by management to charge the costs of certain activities, such as Worker's Compensation Insurance and Health Insurance that are not reported in the Governmental Funds. The assets and liabilities of the Internal Service Fund are reported with Governmental Activities. (97,658)

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.

General obligation bonds	(183,300)	
OPWC loans payable	(616,441)	
Capital lease payable	(138,198)	
Compensated absences	<u>(1,926,122)</u>	
Total		(2,864,061)

The net pension asset/liability is not due and receivable/due and payable in the current period; therefore, the asset/liability and related deferred outflows/inflows are not reported in the funds.

Net pension asset	11,570	
Deferred outflows of resources	4,034,103	
Net pension liability	(17,958,525)	
Deferred inflows of resources	<u>(1,321,548)</u>	
Total		<u>(15,234,400)</u>

Net position of governmental activities \$ 6,584,515

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Year Ended December 31, 2017

	<u>General</u>	<u>Fire Levy</u>
Revenues:		
Property taxes	\$ 1,292,979	\$ 598,513
Municipal income taxes	9,532,886	-
Intergovernmental	376,976	57,737
Charges for services	299,202	-
Licenses and permits	194,346	-
Fines and forfeitures	192,019	-
Investment income	5,334	-
Miscellaneous income	<u>377,845</u>	<u>56,327</u>
Total revenues	<u>12,271,587</u>	<u>712,577</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	919,558	2,852,311
Public health and welfare	253,219	-
Leisure time activities	1,019,931	-
Community development	305,520	-
Basic utility services	655,161	-
Transportation	-	-
General government	3,760,238	-
Capital outlay	-	-
Debt service:		
Principal retirement	41,492	-
Interest and fiscal charges	<u>1,603</u>	<u>-</u>
Total expenditures	<u>6,956,722</u>	<u>2,852,311</u>
Excess of revenues over (under) expenditures	<u>5,314,865</u>	<u>(2,139,734)</u>
Other financing sources (uses):		
Transfers – in	-	2,240,000
Transfers – out	(4,796,335)	-
Inception of capital lease	110,864	-
Sale of capital assets	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,685,471)</u>	<u>2,240,000</u>
Net change in fund balances	629,394	100,266
Fund balances at beginning of year	<u>3,397,050</u>	<u>74,635</u>
Fund balances at end of year	\$ <u><u>4,026,444</u></u>	\$ <u><u>174,901</u></u>

The accompanying notes are an integral part of the financial statements

<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,775,570	\$ 399,009	\$ 319,201	\$ 4,385,272
-	-	-	9,532,886
195,618	680,039	703,675	2,014,045
-	-	332,451	631,653
-	129,599	31,264	355,209
-	-	5,734	197,753
-	1,282	-	6,616
-	<u>54,639</u>	<u>47,942</u>	<u>536,753</u>
<u>1,971,188</u>	<u>1,264,568</u>	<u>1,440,267</u>	<u>17,660,187</u>
3,430,222	39,545	912,434	8,154,070
-	-	-	253,219
-	239,279	-	1,259,210
-	526,142	-	831,662
-	-	-	655,161
-	392,538	656,341	1,048,879
-	33,718	23,890	3,817,846
-	485,592	-	485,592
-	68,998	167,600	278,090
-	<u>2,399</u>	<u>25,767</u>	<u>29,769</u>
<u>3,430,222</u>	<u>1,788,211</u>	<u>1,786,032</u>	<u>16,813,498</u>
<u>(1,459,034)</u>	<u>(523,643)</u>	<u>(345,765)</u>	<u>846,689</u>
1,595,000	286,335	675,000	4,796,335
-	-	-	(4,796,335)
-	-	-	110,864
-	-	<u>2,225</u>	<u>2,225</u>
<u>1,595,000</u>	<u>286,335</u>	<u>677,225</u>	<u>113,089</u>
135,966	(237,308)	331,460	959,778
<u>47,926</u>	<u>596,759</u>	<u>828,427</u>	<u>4,944,797</u>
\$ <u><u>183,892</u></u>	\$ <u><u>359,451</u></u>	\$ <u><u>1,159,887</u></u>	\$ <u><u>5,904,575</u></u>

City of Bedford Heights, 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

Net change in fund balances - total governmental funds \$ 959,778

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

Governmental funds report capital outlay 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 and capital outlays differed in the current period.

Capital outlay	\$ 505,345	
Depreciation	<u>(1,507,009)</u>	
Total		(1,001,664)

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. (3,777)

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

Property and other taxes	(13,116)	
Municipal income taxes	300,976	
Intergovernmental	418,544	
Charges for services	<u>5,028</u>	
Total		711,432

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

General obligation bonds	167,600	
OPWC loans	41,773	
Capital leases	<u>68,717</u>	
Total		278,090

Other financing sources in the governmental funds that increase long-term liabilities in the Statement of Net Position.

Inception of capital lease	(110,864)
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(continued)

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (continued)

For the Year Ended December 31, 2017

Internal service funds are used by management to charge costs of certain activities, such as worker's compensation insurance and health insurance. The net revenue (expense) of the Internal Service Funds is reported with the Governmental Activities.		157,263
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
	Compensated absences	(95,748)
	Accrued interest payable	<u>495</u>
	Total	(95,253)
Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.		1,242,273
Except for amounts reported as deferred outflows/inflows, changes in the net pension asset/liability are reported as pension expense in the Statement of Activities.		<u>(2,163,533)</u>
Change in net position of governmental activities		\$ <u><u>(26,255)</u></u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund

For the Year Ended December 31, 2017

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,215,622	\$ 1,215,622	\$ 1,292,979	\$ 77,357
Municipal income taxes	9,613,085	9,613,085	9,613,085	-
Intergovernmental	417,542	405,111	379,572	(25,539)
Charges for services	327,046	317,309	297,305	(20,004)
Licenses and permits	213,022	206,680	193,650	(13,030)
Fines and forfeitures	208,766	202,550	189,781	(12,769)
Miscellaneous income	218,136	211,641	198,299	(13,342)
Total revenues	<u>12,213,219</u>	<u>12,171,998</u>	<u>12,164,671</u>	<u>(7,327)</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	899,297	861,503	811,433	50,070
Public health	287,474	260,449	249,797	10,652
Leisure time activities	1,344,087	1,124,848	1,052,340	72,508
Community development	352,473	325,073	304,317	20,756
Basic utility services	690,305	685,080	654,116	30,964
General government	3,989,560	4,031,418	3,709,144	322,274
Debt service:				
Principal	-	-	41,492	(41,492)
Interest	-	-	1,603	(1,603)
Total expenditures	<u>7,563,196</u>	<u>7,288,371</u>	<u>6,824,242</u>	<u>464,129</u>
Excess of revenues over expenditures	<u>4,650,023</u>	<u>4,883,627</u>	<u>5,340,429</u>	<u>456,802</u>
Other financing uses:				
Transfers – out	<u>(4,753,000)</u>	<u>(4,986,335)</u>	<u>(4,986,335)</u>	<u>-</u>
Net change in fund balance	(102,977)	(102,708)	354,094	456,802
Fund balance at beginning of year	544,338	544,338	544,338	-
Encumbrances at end of year	<u>-</u>	<u>-</u>	<u>95,732</u>	<u>95,732</u>
Fund balance at end of year	\$ <u>441,361</u>	\$ <u>441,630</u>	\$ <u>994,164</u>	\$ <u>552,534</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – Fire Levy Fund

For the Year Ended December 31, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 568,792	\$ 568,792	\$ 598,513	\$ 29,721
Intergovernmental	54,066	54,066	57,737	3,671
Miscellaneous income	<u>52,773</u>	<u>52,773</u>	<u>56,357</u>	<u>3,584</u>
Total revenues	<u>675,631</u>	<u>675,631</u>	<u>712,607</u>	<u>36,976</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>3,015,350</u>	<u>3,015,350</u>	<u>2,849,698</u>	<u>165,652</u>
Excess of revenues under expenditures	(2,339,719)	(2,339,719)	(2,137,091)	202,628
Other financing sources:				
Transfers – in	<u>2,240,000</u>	<u>2,240,000</u>	<u>2,240,000</u>	<u>-</u>
Net change in fund balance	(99,719)	(99,719)	102,909	202,628
Fund balance at beginning of year	142,956	142,956	142,956	-
Encumbrances at end of year	<u>-</u>	<u>-</u>	<u>6,642</u>	<u>6,642</u>
Fund balance at end of year	\$ <u>43,237</u>	\$ <u>43,237</u>	\$ <u>252,507</u>	\$ <u>209,270</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – Issue 24 Levy Fund

For the Year Ended December 31, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,687,417	\$ 1,687,417	\$ 1,775,570	\$ 88,153
Intergovernmental	<u>161,754</u>	<u>174,644</u>	<u>201,558</u>	<u>26,914</u>
Total revenues	<u>1,849,171</u>	<u>1,862,061</u>	<u>1,977,128</u>	<u>115,067</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>3,517,569</u>	<u>3,530,459</u>	<u>3,435,156</u>	<u>95,303</u>
Excess of revenues under expenditures	(1,668,398)	(1,668,398)	(1,458,028)	210,370
Other financing sources:				
Transfers – in	<u>1,595,000</u>	<u>1,595,000</u>	<u>1,595,000</u>	<u>-</u>
Net change in fund balance	(73,398)	(73,398)	136,972	210,370
Fund balance at beginning of year	137,943	137,943	137,943	-
Encumbrances at end of year	<u>-</u>	<u>-</u>	<u>1,460</u>	<u>1,460</u>
Fund balance at end of year	\$ <u>64,545</u>	\$ <u>64,545</u>	\$ <u>276,375</u>	\$ <u>211,830</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2017

	Business-Type Activities <u>Sewer Treatment Fund</u>	Governmental Activities <u>Internal Service Fund</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 4,964,811	\$ 231,521
Accounts receivable, net	1,281,174	-
Intergovernmental receivable	16,860	-
Supplies and materials inventory	43,160	-
Prepaid expenses	53,456	-
Total current assets	<u>6,359,461</u>	<u>231,521</u>
Noncurrent assets:		
Non-depreciable capital assets	99,200	-
Depreciable capital assets, net	6,924,286	-
Net pension asset	4,909	-
Total noncurrent assets	<u>7,028,395</u>	<u>-</u>
Total assets	<u>13,387,856</u>	<u>231,521</u>
Deferred outflows our resources:		
Pension	<u>804,870</u>	<u>-</u>
Liabilities:		
Current liabilities:		
Accounts payable	38,388	6,441
Accrued wages and benefits	70,572	-
Accrued interest payable	353	-
Claims payable	-	201,804
Accrued compensated absences	142,563	-
Capital lease payable	1,195	-
Due within one year - OPWC loans	4,542	-
General obligation bond payable	116,700	-
Total current liabilities	<u>374,313</u>	<u>208,245</u>
Long-term liabilities (net of current portion):		
Claims payable	-	120,934
Accrued compensated absences	200,358	-
Capital lease payable	622	-
OPWC loans payable	267,949	-
Net pension liability	2,069,427	-
Total long-term liabilities	<u>2,538,356</u>	<u>120,934</u>
Total liabilities	<u>2,912,669</u>	<u>329,179</u>
Deferred inflows of resources:		
Pension	<u>170,420</u>	<u>-</u>
Net position:		
Net investment in capital assets	6,904,969	-
Unrestricted	4,204,668	(97,658)
Total net position	<u>\$ 11,109,637</u>	<u>\$ (97,658)</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds

For the Year Ended December 31, 2017

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
Operating revenues:		
Charges for services	\$ 3,927,575	\$ 1,892,542
Other	<u>104,005</u>	<u>-</u>
Total operating revenues	<u>4,031,580</u>	<u>1,892,542</u>
Operating expenses:		
Personal services	2,061,680	-
Travel and education	9,763	-
Contractual services	623,835	11,663
Supplies and materials	145,479	-
Claims	-	1,723,632
Depreciation	<u>341,625</u>	<u>-</u>
Total operating expenses	<u>3,182,382</u>	<u>1,735,295</u>
Operating income	<u>849,198</u>	<u>157,247</u>
Non-operating revenues (expenses):		
Investment income	1,912	16
Interest and fiscal charges	<u>(6,732)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(4,820)</u>	<u>16</u>
Income before contributions	844,378	157,263
Capital contributions	<u>29,133</u>	<u>-</u>
Change in net position	873,511	157,263
Net position at beginning of year	<u>10,236,126</u>	<u>(254,921)</u>
Net position at end of year	<u>\$ 11,109,637</u>	<u>\$ (97,658)</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2017

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
Cash flows from operating activities		
Cash received from customers	\$ 4,034,270	\$ -
Cash received from interfund services	-	1,892,542
Cash payments for goods and services	(682,599)	(11,663)
Cash payments to employees for services and benefits	(1,810,625)	-
Cash payments for materials and supplies	(130,603)	-
Cash payments for claims	-	(1,809,975)
Cash received for other operating activities	<u>87,145</u>	<u>-</u>
Net cash provided by operating activities	<u>1,497,588</u>	<u>70,904</u>
Cash flows from capital and related financing activities		
Acquisition and construction of assets	(537,050)	-
Capital contributions	29,133	-
Proceeds from OPWC loan	272,491	-
Principal paid	(113,529)	-
Interest paid	<u>(7,059)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(356,014)</u>	<u>-</u>
Cash flows from investing activities		
Interest received	<u>1,912</u>	<u>16</u>
Net increase in cash and cash equivalents	1,143,486	70,920
Cash and cash equivalents at beginning of year	<u>3,821,325</u>	<u>160,601</u>
Cash and cash equivalents at end of year	<u>\$ 4,964,811</u>	<u>\$ 231,521</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Cash Flows (Continued) Proprietary Funds

For the Year Ended December 31, 2017

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	Sewer Treatment Fund	Internal Service Fund
<i>Reconciliation of operating income to net cash from operating activities:</i>		
Operating income	\$ 849,198	\$ 157,247
Adjustments:		
Depreciation	341,625	-
Changes in assets/liabilities		
Decrease in accounts receivable, net	89,835	-
Increase in prepaid expenses	(6,206)	-
Decrease in supplies and materials inventory	15,547	-
Decrease in net pension asset	232	-
Increase in deferred outflows – pension	(184,031)	-
(Decrease) increase in accounts payable	(43,466)	6,441
Increase in accrued wages and benefits	4,001	-
Decrease in claims payable	-	(92,784)
Increase in accrued compensated absences	23,787	-
Increase in net pension liability	447,186	-
Decrease in deferred inflows – pension	<u>(40,120)</u>	<u>-</u>
Net cash provided by operating activities	\$ <u>1,497,588</u>	\$ <u>70,904</u>
Non-cash investing and capital financing activities:		
Capital assets purchased on account	\$ (67,456)	\$ -

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Statement of Fiduciary Net Position Agency Funds

December 31, 2017

	<u>Agency</u>
Assets:	
Cash and cash equivalents	\$ <u>70,620</u>
Liabilities:	
Due to others	\$ 12,985
Intergovernmental payable	<u>57,635</u>
Total liabilities	\$ <u>70,620</u>

The accompanying notes are an integral part of the financial statements

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Note 1: The Reporting Entity

The City of Bedford Heights (the “City”) is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a mayor-council form of government, was adopted January 1, 1960.

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 Bedford Heights this includes police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The City’s departments include a public safety department, a public service department, a street maintenance department, a sanitation system department, parks and recreation department, a planning and zoning department, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

The Mayor’s Court (the “Court”), which provides judicial services, is responsible for the levying and collecting of fines and forfeitures under state and local laws, and their subsequent distribution to various government agencies. The City budgets and appropriates funds for the operation of the Court and is ultimately responsible for any operating deficits sustained by the Court. The City’s share of the fines collected by the Court, along with its share of the Court’s administrative and operating costs, is recorded in the City’s general fund. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

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. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

Note 2: Summary of Significant Accounting Policies

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

A. 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 activities. The activity of the internal service funds are eliminated to avoid doubling up revenues and expenses.

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

Fund Financial Statements

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Bedford Heights and/or the general laws of Ohio.

Fire Levy Fund – Accounts for three (3) mills for each one dollar of assessed valuation for the purpose of operating, equipping and housing the City's own division of fire.

Issue 24 Levy Fund – Accounts for 8.9 mills for each one dollar of assessed valuation for the purpose of operating the City's safety services.

Capital Improvements Fund – This fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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

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

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's major enterprise fund is the Sewer Treatment Fund. This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City maintains two separate internal service funds to account for its worker's compensation self-insurance activity and medical self-insurance activity.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's agency funds are for the Veterans Memorial, Glenwillow sanitary sewer maintenance and repair, youth scholarship, K-9 program, mobile pantry program and the Mayor's Court.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the 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 the City are included on the Statement of Net Position, except for fiduciary funds. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of 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 activities.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

D. 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, 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. Available period for the City is 60 days after 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 7).

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), fines and forfeitures, licenses and permits, interest, grants, and rentals.

Unearned Revenue

Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned. The City does not have any unearned revenue at December 31, 2017.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements that report financial position may include a 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. The City has deferred outflows of resources for pension reported in the Statements of Net Position and the amount in the proprietary funds is also reported in the fund financial statements. The deferred outflows of resources related to pension are explained in Note 13.

In addition to liabilities, the financial statements that report financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, unavailable revenue and amounts for pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance fiscal year 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, charges for services, and intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position and in the proprietary funds on the Statement of Fund Net Position.

Expenses/Expenditures

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

E. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. City Council passes appropriations at the function and object level. Line item appropriations may be transferred between the accounts with the approval of the Mayor, Finance Director, and respective department head. City Council must approve any revisions in the budget that alter appropriations at the function and object level.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenues and expenditures for all funds is submitted to the County Fiscal Officer, as Secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenues of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for annual appropriation measures.

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments are made during the year if the Finance Director determines that revenues to be collected will be greater than or less than the prior estimates and the budget commission find the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2017. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

Annual Estimate

The Mayor, with the assistance of the Finance Director, is required by Charter to submit to City Council, on or before December 1 of each fiscal year, an estimate of the revenues and expenditures of each fund of the City for the next succeeding fiscal year. The annual estimate serves as the basis for appropriations (the appropriated budget) in each fund.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the official amended certificate of estimated resources. Supplemental appropriations may be adopted by City Council action. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried over for the subsequent year's expenditures and is re-appropriated.

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from City Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by City Council. For all funds, City Council appropriations are made to personal services, travel and education, contractual services, supplies and materials, capital outlay, debt principal and interest payments, and transfer accounts for each department. The appropriations set by City Council must remain fixed unless amended by City Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within City Council's appropriated amount.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Cash and cash equivalents" in the financial statements.

During 2017, the City invested in STAR Ohio.

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

STAR Ohio, is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but the City has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The City measures their investment in STAR Ohio at amortized cost.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2017 amounted to \$5,334, which includes \$1,219 assigned from other City funds. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

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

G. Inventory

Inventories for all governmental funds are valued using the first-in/first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund.

Inventories of proprietary funds are valued using the first-in/first-out method and expensed when used rather than when purchased.

H. Prepaid Items

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

I. Capital Assets

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. The City's capitalization threshold is \$5,000. The City's infrastructure consists of streets and sanitary and storm sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

In the case of the initial capitalization of general infrastructure the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets by estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	6 to 50 years
Furniture, fixtures, and equipment	3 to 40 years
Vehicles	5 to 15 years
Infrastructure:	
Streets	15 to 20 years
Sewer lines	50 to 75 years

J. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received and from short-term interfund loans are classified as "interfund receivables/payables." Interfund balance amounts are eliminated in the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences (continued)

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 that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the City's termination policy. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and net pension liabilities 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 long-term loans are recognized as a liability on the fund financial statements when due.

M. Fund Balance

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

Nonspendable: The nonspendable fund balance 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 or enabling legislation (City ordinances).

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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, 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 underlying revenue; therefore, compliance with these constraints are 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. 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. The City's delegated official is the Finance Director.

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

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

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide Statement of Net Position reports \$1,379,997 of restricted net position, none of which is restricted by enabling legislation.

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are reimbursements for the sewer treatment plant. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

Q. 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.

R. 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 3: Change in Accounting Principles

Pronouncements Issued but Not Effective GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The City has not determined the impact, if any that this Statement will have on its financial statements or disclosures.

Note 4: 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 below:

<u>Fund Balances</u>	<u>General</u>	<u>Fire Levy</u>	<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Prepays	\$ 59,749	\$ -	\$ -	\$ -	\$ -	\$ 59,749
Inventory	9,491	-	-	-	58,679	68,170
Unclaimed monies	5,836	-	-	-	-	5,836
Total nonspendable	<u>75,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,679</u>	<u>133,755</u>
Restricted:						
Fire Levy	-	174,901	-	-	-	174,901
Issue 24 Levy	-	-	183,892	-	-	183,892
Debt service payments	-	-	-	-	424,732	424,732
State highway	-	-	-	-	23,117	23,117
Street construction	-	-	-	-	196,220	196,220
Police and fire pensions	-	-	-	-	213,022	213,022
Law enforcement trust	-	-	-	-	3,204	3,204
DUI enforcement	-	-	-	-	8,799	8,799
JAG Byrne grant	-	-	-	-	948	948
Mayor's court computer	-	-	-	-	21,872	21,872
Local law enforcement block grant	-	-	-	-	829	829
Juvenile community diversion	-	-	-	-	1,080	1,080
Sobriety checkpoint	-	-	-	-	68	68
Garden club	-	-	-	-	1,504	1,504
Tax incentive review	21,248	-	-	-	-	21,248
Other purposes	143,052	-	-	-	-	143,052
Total restricted	<u>164,300</u>	<u>174,901</u>	<u>183,892</u>	<u>-</u>	<u>895,395</u>	<u>1,418,488</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 4: Fund Balances (continued)

<u>Fund Balances</u>	<u>General</u>	<u>Fire Levy</u>	<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Committed:						
Capital improvements	-	-	-	359,451	-	359,451
Safety department equipment	-	-	-	-	13,679	13,679
Ambulance billing	-	-	-	-	114,595	114,595
Cable TV program	-	-	-	-	77,539	77,539
Termination benefits	<u>175,232</u>	-	-	-	-	<u>175,232</u>
Total committed	<u>175,232</u>	-	-	<u>359,451</u>	<u>205,813</u>	<u>740,496</u>
Assigned:						
Year 2018 appropriations	21,699	-	-	-	-	21,699
Purchases on order	<u>62,388</u>	-	-	-	-	<u>62,388</u>
Total assigned	<u>84,087</u>	-	-	-	-	<u>84,087</u>
Unassigned	<u>3,527,749</u>	-	-	-	-	<u>3,527,749</u>
Total fund balance	\$ <u>4,026,444</u>	\$ <u>174,901</u>	\$ <u>183,892</u>	\$ <u>359,451</u>	\$ <u>1,159,887</u>	\$ <u>5,904,575</u>

Note 5: Budgetary Basis of Accounting

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

The major differences between the budgetary basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- (b) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- (c) Encumbrances are treated as expenditures (budgetary) rather than assigned fund balance (GAAP).
- (d) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).
- (e) State statute requires short-term note debt to be repaid from the debt service fund (budgetary) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 5: Budgetary Basis of Accounting (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund, fire levy fund, and Issue 24 levy fund.

	<u>Net Change in Fund Balances</u>		
	<u>General</u>	<u>Fire Levy</u>	<u>Issue 24 Levy</u>
GAAP basis	\$ 629,394	\$ 100,266	\$ 135,966
<u>Increase (decrease) due to:</u>			
Revenue accruals	(27,148)	30	5,940
Expenditure accruals	(64,708)	9,255	(3,474)
Encumbrances	(95,732)	(6,642)	(1,460)
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	<u>(87,712)</u>	<u>-</u>	<u>-</u>
Budget basis	\$ <u>354,094</u>	\$ <u>102,909</u>	\$ <u>136,972</u>

Note 6: Deposits and Investments

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

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

Inactive deposits are monies 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 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 monies may 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 6: Deposits and Investments (continued)

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% of the interim monies available for investment at any one time if training requirements have been met; and
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 2% and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 6: Deposits and Investments (continued)

A. Deposits (continued)

Effective July 1, 2017, 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. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

At year-end, the carrying amount of the City's deposits was \$8,924,591 and the bank balance was \$9,671,331. Of the bank balance, \$500,000 was covered by the Federal Depository Insurance Corporation and \$9,171,331 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name. The City also has \$250 in petty cash on hand.

B. Investments

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

	<u>Fair Value</u>	<u>Maturities (in years) Less than 1</u>	<u>Maturities (in years) More than 1</u>
STAR Ohio	\$ <u>852,335</u>	\$ <u>852,335</u>	\$ <u>-</u>

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

STAR Ohio is measured at amortized cost, which approximates fair value. At December 31, 2017, the average days to maturity was 52.1.

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than one year.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 6: Deposits and Investments (continued)

B. Investments (continued)

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The City's investment in Star Ohio carries an "AAAm" money market rating by Standard & Poor's.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2017:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
STAR Ohio	100 %

Note 7: Receivables

Receivables at December 31, 2017 consisted primarily of taxes, accounts, special assessments and intergovernmental receivables arising from shared revenues. The sewer treatment fund accounts receivable is net of a \$120,358 allowance for doubtful accounts. All remaining receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections for 2016 taxes. Property tax payments received during 2017 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Fiscal Officer at 35% of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2015 affecting collections beginning in 2016.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due mid-January with the remainder payable by mid-July. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits earlier or 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% of true value. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 7: Receivables (continued)

A. Property Taxes (continued)

Tangible personal property used in business (except for public utilities) was phased out – the assessment percentage for all property including inventory is zero. Amounts for prior year unpaid tangible personal property taxes may still be collected. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

While property tax rates are levied by the City, the Cuyahoga County Fiscal Officer is statutorily responsible for administering and collecting real property taxes on the behalf of all taxing authorities in the County, including the City. The County periodically remits to the City its portion of taxes collected.

The assessed values per category applicable to the 2017 tax collections are as follows:

<u>Assessed Value</u>	
Category	
Real estate	\$ 212,052,150
Public utility	<u>6,939,850</u>
Total	\$ <u>218,992,000</u>

The tax rate levied to finance the City's services for the year ended December 31, 2017 was \$21.9 per \$1,000 of real estate and personal property valuation.

B. Income Tax

The City levies and collects an income tax of two percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least monthly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The City, by ordinance, allocates income tax revenues and expenditures for collecting, administering, and enforcing the tax to the general fund.

C. Intergovernmental

A summary of intergovernmental receivables is as follows:

Governmental activities:	<u>Amounts</u>
Local governmental	\$ 119,804
Homestead and rollback	201,033
Gasoline tax	185,540
Auto registration	103,952
Permissive auto tax	6,797
Jobs Ohio grant	<u>421,778</u>
Total governmental activities	\$ <u>1,038,904</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 7: Receivables (continued)

C. Intergovernmental (continued)

Business type activities:

City of Cleveland	16,860
Total intergovernmental receivable	\$ <u>1,055,764</u>

Note 8: Interfund Transactions

Interfund transfers for the year ended December 31, 2017, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u> General Fund
Fire Levy Fund	\$ 2,240,000
Issue 24 Levy Fund	1,595,000
Capital Improvements Fund	286,335
Nonmajor governmental funds	675,000
Total	\$ <u>4,796,335</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The City had no transfers that were inconsistent with the purpose of the fund making the transfer.

Interfund activity for the year ended December 31, 2017, consisted of the following:

<u>Interfund Receivable</u>	<u>Interfund</u> <u>Payable</u> Capital improvement fund
General fund	\$ <u>426,142</u>

The interfund receivable and payable listed above result from a difference in the timing of when expenses are recognized in accordance with generally accepted accounting principles and when the related interfund subsidies are budgeted for payment on a cash basis. All are expected to be repaid within one year.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 9: Capital Assets

A summary of changes in capital assets during 2017 follows:

	<u>Balance</u> 12/31/16	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/17
Governmental activities:				
Non-depreciable assets:				
Land	\$ <u>2,231,201</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,231,201</u>
Depreciable assets:				
Buildings and improvements	20,223,974	243,616	-	20,467,590
Furniture, fixtures and equipment	6,134,412	52,057	-	6,186,469
Vehicles	3,239,278	209,672	(92,040)	3,356,910
Infrastructure:				
Streets	<u>15,791,408</u>	<u>-</u>	<u>-</u>	<u>15,791,408</u>
Total depreciable assets	<u>45,389,072</u>	<u>505,345</u>	<u>(92,040)</u>	<u>45,802,377</u>
Less accumulated depreciation:				
Buildings and improvements	(13,106,370)	(495,533)	-	(13,601,903)
Furniture, fixtures and equipment	(2,907,984)	(368,408)	-	(3,276,392)
Vehicles	(2,371,493)	(127,411)	88,263	(2,410,641)
Infrastructure:				
Streets	<u>(11,763,721)</u>	<u>(515,657)</u>	<u>-</u>	<u>(12,279,378)</u>
Total accumulated depreciation	<u>(30,149,568)</u>	<u>(1,507,009)</u>	<u>88,263</u>	<u>(31,568,314)</u>
Total depreciable assets, net	<u>15,239,504</u>	<u>(1,001,664)</u>	<u>(3,777)</u>	<u>14,234,063</u>
Governmental activities capital assets, net	\$ <u>17,470,705</u>	\$ <u>(1,001,664)</u>	\$ <u>(3,777)</u>	\$ <u>16,465,264</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 125,548
Security of persons and property	471,943
Public health and welfare	2,925
Leisure time activities	339,324
Community development	377
Basic utility services	5,425
Transportation	<u>561,467</u>
Total	\$ <u>1,507,009</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 9: Capital Assets (continued)

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/17</u>
Business-type activities:				
Non-depreciable assets:				
Land	\$ <u>99,200</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>99,200</u>
Depreciable assets:				
Buildings and improvements	4,818,539	189,738	-	5,008,277
Furniture, fixtures and equipment	7,702,547	7,365	-	7,709,912
Vehicles	361,445	-	-	361,445
Infrastructure:				
Sewers	<u>6,851,320</u>	<u>272,491</u>	<u>-</u>	<u>7,123,811</u>
Total depreciable assets	<u>19,733,851</u>	<u>469,594</u>	<u>-</u>	<u>20,203,445</u>
Less accumulated depreciation:				
Buildings and improvements	(3,410,101)	(145,410)	-	(3,555,511)
Furniture, fixtures and equipment	(6,722,782)	(47,799)	-	(6,770,581)
Vehicles	(265,034)	(9,997)	-	(275,031)
Infrastructure:				
Sewers	<u>(2,539,617)</u>	<u>(138,419)</u>	<u>-</u>	<u>(2,678,036)</u>
Total accumulated depreciation	<u>(12,937,534)</u>	<u>(341,625)</u>	<u>-</u>	<u>(13,279,159)</u>
Total depreciable assets, net	<u>6,796,317</u>	<u>127,969</u>	<u>-</u>	<u>6,924,286</u>
Business-type capital assets, net	\$ <u>6,895,517</u>	\$ <u>127,969</u>	\$ <u>-</u>	\$ <u>7,023,486</u>

Note 10: Long-Term Debt

A. Original Issues

The original issue date, interest rates and issuance amount for each of the City's bonds and loans follows:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds:			
Jail Facilities	2004	2.00% - 4.00%	3,300,000
Various Purpose Bonds	2008	3.00% - 3.63%	1,352,800
Various Purpose Bonds	2008	3.00% - 3.63%	982,200
OPWC Loan:			
Sunset Drive Improvements	2009	0.00%	281,155
Columbia Drive Improvements	2012	0.00%	538,699
Perkins Road Foremain	2017	0.00%	272,491

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 10: Long-Term Debt (continued)

B. Bonded Debt and Other Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2017 was as follows:

	<u>Balance 12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/17</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds:					
Refunded jail facilities improvement, due through 2018	\$ 35,000	\$ -	\$ (15,000)	\$ 20,000	\$ 20,000
Various purpose bonds, due through 2018	<u>315,900</u>	<u>-</u>	<u>(152,600)</u>	<u>163,300</u>	<u>163,300</u>
Total general obligation bonds	<u>350,900</u>	<u>-</u>	<u>(167,600)</u>	<u>183,300</u>	<u>183,300</u>
Ohio Public Works Commission loans:					
Sunset Drive improvements, due through 2030	200,320	-	(14,838)	185,482	14,838
Columbia Drive improvements, due through 2033	<u>457,894</u>	<u>-</u>	<u>(26,935)</u>	<u>430,959</u>	<u>26,935</u>
Total Ohio Public Works Commission loans	<u>658,214</u>	<u>-</u>	<u>(41,773)</u>	<u>616,441</u>	<u>41,773</u>
Other long-term obligations:					
Claims payable	415,522	1,717,039	(1,809,823)	322,738	201,804
Capital leases payable	96,051	110,864	(68,717)	138,198	69,159
Accrued compensated absences	1,830,374	796,720	(700,972)	1,926,122	788,281
Net pension liability	<u>18,538,460</u>	<u>-</u>	<u>(579,935)</u>	<u>17,958,525</u>	<u>-</u>
Total other long-term obligations	<u>20,880,407</u>	<u>2,624,623</u>	<u>(3,159,447)</u>	<u>20,345,583</u>	<u>1,059,244</u>
Total governmental activities long-term liabilities	<u>\$ 21,889,521</u>	<u>\$ 2,624,623</u>	<u>\$ (3,368,820)</u>	<u>\$ 21,145,324</u>	<u>\$ 1,284,317</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 10: Long-Term Debt (continued)

B. Bonded Debt and Other Long-Term Obligations

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/17</u>	Due Within <u>One Year</u>
Business-type activities:					
General obligation bonds:					
Various purpose bonds, due through 2018	\$ 229,100	\$ -	\$ (112,400)	\$ 116,700	\$ 116,700
Ohio Public Works Commission loans:					
Perkins Road Forcemain, due through 2048	-	272,491	-	272,491	4,542
Other long-term obligations:					
Capital leases payable	2,946	-	(1,129)	1,817	1,195
Accrued compensated absences	319,134	137,275	(113,488)	342,921	142,563
Net pension liability	<u>1,622,241</u>	<u>447,186</u>	<u>-</u>	<u>2,069,427</u>	<u>-</u>
Total business-type activities long-term liabilities	\$ <u>2,173,421</u>	\$ <u>856,952</u>	\$ <u>(227,017)</u>	\$ <u>2,803,356</u>	\$ <u>265,000</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2017 are as follows:

Year	General Obligation Bonds			
	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2018	\$ <u>183,300</u>	\$ <u>6,720</u>	\$ <u>116,700</u>	\$ <u>4,230</u>
Year	OPWC Loans			
	Governmental	Business-Type		
	Principal	Principal		
	2018	\$ 41,773	\$ 4,542	
	2019	41,773	9,084	
	2020	41,774	9,084	
	2021	41,773	9,084	
	2022	41,774	9,084	
	2023-2027	208,867	45,420	
	2028-2032	171,773	45,420	
	2033-2037	26,934	45,420	
	2038-2042	-	45,420	
	2043-2047	-	45,420	
	2048	-	4,513	
Totals	\$ <u>616,441</u>	\$ <u>272,491</u>		

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 10: Long-Term Debt (continued)

B. Bonded Debt and Other Long-Term Obligations

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. In the event that revenues are not sufficient to meet annual principal and interest requirements, the City has reserved the right to levy property tax millage in an amount necessary to retire principal and interest.

Claims payable will be paid from the workers' compensation and hospitalization reserve funds. The City pays obligations related to employee compensation from the fund benefitting from their service.

The City's overall legal debt margin was \$23,118,892 at December 31, 2017.

In 2008, the City issued a par amount of \$2,335,000 of Various Improvement bonds with a variable coupon rate ranging from 3.00% to 3.63%. The bonds were issued for the purposes of improving buildings and wastewater treatment systems, including, but not limited to upgrades to lighting fixtures, HVAC modifications and various additional building improvements to conserve energy.

In 2004, the City issued a par amount of \$3,300,000 of Jail Facilities bonds with an average coupon rate of 2.52% to advance refund the portion of the 1995 Jail Facilities bonds stated to mature on December 1, 2018 in the aggregate principal amount of \$1,340,000 with an interest rate of 2.90%. The net proceeds from the issuances of the general obligation bonds and cash payment of \$49,496 were used to purchase U.S Government Securities in the amount of \$1,442,145 and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until the Jail Facilities bonds were called on December 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the Jail Facilities bonds were removed from the City's government-wide financial statements. As of December 31, 2017, there was no defeased debt outstanding.

Note 11: Capital Leases

The City has entered into lease agreements as lessee for financing which relate to various equipment and vehicles. These leases are long-term agreements which meet the criteria of a capital lease and have been recorded on the government-wide financial statements. These amounts represent the present value of the minimum lease payments at the inception of the lease.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets:		
Vehicles	\$ 247,118	\$ -
Equipment	22,143	5,535
Less: accumulated depreciation	<u>(45,918)</u>	<u>(3,598)</u>
Total	<u>\$ 223,343</u>	<u>\$ 1,937</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Capital Leases (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments.

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2018	\$ 73,264	\$ 1,272
2019	<u>70,732</u>	<u>636</u>
Total minimum lease payments	143,996	1,908
Less: Amount representing interest	<u>(5,798)</u>	<u>(91)</u>
Present value of minimum lease payments	\$ <u>138,198</u>	\$ <u>1,817</u>

Lease payments are made from the general fund, capital improvements fund and sewer treatment fund. The lease payments will be paid with current available resources that have accumulated in the fund.

Amortization of capital leases is included in depreciation expense.

Note 12: Compensated Absences

The City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at December 31, 2017. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

Vacation leave is earned at rates that vary depending upon length of service and standard workweek. The City's current vacation policy specifies that accumulated vacation leave must be used prior to December 31 of the year following the year in which it is earned unless approved by City Council.

Each department earns sick leave at a negotiated rate per month. Each employee with the City is paid a portion of the employee's earned unused sick leave, with a maximum number of hours per department specifications, upon retirement from the City with 10 years of service. The Police and Fire Departments are able to accumulate compensatory time in lieu of being paid overtime, to be taken anytime or paid at the time of separation.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans

A. *Net Pension Liability*

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

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

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

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

B. 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, substantially all employee members are in OPERS' Traditional or Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. 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 614-222-5601 or 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. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning 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.

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

When a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided on the member's base benefit. 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% 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%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan.

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

Benefits in the Combined plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional pension plan.

The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
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: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. 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% 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%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Combined plan.

The Member-Directed plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The distribution upon retirement is equal to the sum of member and vested employer contributions plus investment earnings (or losses). Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

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	10.0 %

In 2017, the City's contractually required contribution, net of post-employment health care benefits, was \$543,197 for 2017. Of this amount, \$63,443 is reported as accrued wages and benefits at December 31, 2017.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - the City's 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 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% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit.

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (continued)

Funding Policy - The ORC provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighter</u>
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2017 through December 31, 2017	12.25 %	12.25 %
2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2017 through December 31, 2017	12.25 %	12.25 %

In 2017, the City's contractually required contribution, net of postemployment health care benefits was \$860,852 for 2017. Of this amount, \$108,216 is reported as accrued wages and benefits at December 31, 2017.

D. 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:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability/asset prior measurement date	0.032857%	0.037060%	0.224923%	
Proportion of the net pension liability/asset current measurement date	<u>0.030599%</u>	<u>0.029607%</u>	<u>0.206499%</u>	
Change in Proportionate Share	(0.002258%)	(0.007453%)	(0.018424%)	
Proportionate share of the net pension liability/(asset)	\$ 6,948,514	\$ (16,479)	\$ 13,079,438	\$ 20,011,473
Pension expense	\$ 1,098,640	\$ 12,534	\$ 1,437,404	\$ 2,548,578

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflow of resources				
City contributions subsequent to the measurement date	\$ 526,852	\$ 16,345	\$ 860,852	\$ 1,404,049
Differences in employer contributions and change in proportionate share	-	4,935	-	4,935
Difference between expected and actual experience	9,419	-	3,700	13,119
Change in assumptions	1,102,119	4,016	-	1,106,135
Net difference between projected and actual earnings on pension plan investments	<u>1,034,797</u>	<u>4,020</u>	<u>1,271,918</u>	<u>2,310,735</u>
Total deferred outflow of resources	\$ <u>2,673,187</u>	\$ <u>29,316</u>	\$ <u>2,136,470</u>	\$ <u>4,838,973</u>
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	\$ 522,437	\$ -	\$ 889,635	\$ 1,412,072
Difference between expected and actual experience	<u>41,353</u>	<u>8,428</u>	<u>30,115</u>	<u>79,896</u>
Total deferred inflow of resources	\$ <u>563,790</u>	\$ <u>8,428</u>	\$ <u>919,750</u>	\$ <u>1,491,968</u>

The \$1,404,049 reported as deferred outflows of resources related to pension resulting from the City's 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 Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Fiscal Year Ending December 31:				
2018	\$ 491,720	\$ 1,410	\$ 305,639	\$ 798,769
2019	761,032	1,410	305,639	1,068,081
2020	360,120	1,236	190,375	551,731
2021	(30,327)	(189)	(263,718)	(294,234)
2022	-	(38)	(165,891)	(165,929)
2023-2026	<u>-</u>	<u>714</u>	<u>(16,176)</u>	<u>(15,462)</u>
	\$ <u>1,582,545</u>	\$ <u>4,543</u>	\$ <u>355,868</u>	\$ <u>1,942,956</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

E. 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 active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

In 2016, OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporated both a historical review and forward-looking projection 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% down to 7.5%.

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA	3% Simple	3% Simple

Mortality rates were based on the RP-2014 Health 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 were determined by applying the MP-2015 mortality improvement scale to the above described tables.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

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

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

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, 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.

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%, 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%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
City's proportionate share of the net pension liability – Traditional	\$ 10,615,405	\$ 6,948,514	\$ 3,892,805
City's proportionate share of the net pension liability/(asset) – Combined	\$ 1,184	\$ (16,479)	\$ (30,199)

F. 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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:

Actuarial cost method	Entry age normal
Investment rate of return	8.25%
Projected salary increases	4.25% - 11.00%
Payroll increases	3.75%
Inflation assumptions	3.25%
Cost of living adjustments	2.60% and 3.00% simple

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	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
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00%</u>	
*Levered 2x		

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 13: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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

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

	1% Decrease <u>(7.25%)</u>	Discount Rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability	\$ 17,420,263	\$ 13,079,438	\$ 9,400,532

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, 2016. The most significant change is the reduction in the discount rate from 8.25% to 8.00%. Although the exact amount of these changes is not known, the impact to the City's net position liability is expected to be significant.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 14: Post-Employment Benefits

A. *Ohio Public Employees Retirement System*

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 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 for qualified medical expenses from their vested RMA balance.

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

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

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

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

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% of earnable salary. This is the maximum employer contribution rate 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% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% 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 for Member-Directed plan participants for 2017 was 4.0%.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 14: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

The City's contributions for health care for the years ended December 31, 2017, 2016, and 2015 were \$41,893, \$82,860, and \$83,337, respectively. The full amount has been contributed for 2016 and 2015. For 2017, 88.4% has been contributed, with the remainder being reported as a liability within the accrued wages and benefits.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement 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 GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits 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 for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

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% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2017 through December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 14: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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

The City's contributions to OP&F allocated to the health care plan for police and fire for the years ending December 31, 2017, 2016, and 2015 were \$10,761 and \$9,814, \$11,435 and \$11,062, and \$11,917 and \$11,120, respectively. The full amount has been contributed for 2016 and 2015. For 2017, 87.5% for police and 87.4% for firefighters has been contributed, with the remainder being reported as a liability within the accrued wages and benefits.

Note 15: Risk Management

A. Property and Liability

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon and South Euclid, University Heights and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the Mayor from each of the participating members.

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989, the City of Maple Heights, whose commencement date is October 1, 1993, and the City of University Heights, whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the specific stop-loss coverage carried by the pool. The self-insurance pool will pay up to \$750,000 per policy year before the aggregate stop-loss coverage takes over. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2017, the City paid a total of \$253,060 in premiums from the general and sewer treatment funds. Financial information can be obtained by contacting the fiscal agent, at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 15: Risk Management (continued)

B. Workers' Compensation Program

Historically, under the Ohio Bureau of Workers' Compensation System (the "Bureau") for public employer taxing districts, a city could be fully insured against worker compensation claims. The City paid a premium determined by the "base rate" as modified by the "experience factor". Prior to 2008, the City was a part of the fully insured program.

Ohio law was amended to permit a plan based on a so called "Retrospective Rating." Ohio employers that meet the eligibility requirements and standards are able to participate in this plan which transfers a certain portion of the claim risk to the employer. Under the terms of the Retrospective Rating Plan, an employer is required to make three forms of payment.

- First a minimum premium payment, which is a fraction of the premium it would have been under the fully insured plan.
- Second, the employer is responsible for all selection year claims paid by the Bureau within the next ten years upon leaving the Retrospective Rating Plan.
- Third, at the end of the ten-year period, the Bureau will compute a final premium liability for all remaining, unresolved claims.

The City applied for and was accepted into the Retrospective Rating Plan in 2008. The City's workers' compensation self-insurance fund (an internal service fund) is used to account for and pay workers' compensation claims from the accumulated assets of the fund. The City's Retrospective Rating Plan provided for a \$200,000 catastrophic limit per claim and an aggregate claim limit of 200% fully insured premium that would have been payable by the City for the year in which the injury occurred.

The claims liability of \$144,542 reported in the workers compensation fund (an internal service fund) at December 31, 2017 is based on the requirements of GASB Statement No. 30, which requires a liability for the unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the fund's claims liability amount in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Unpaid claims, beginning of year	\$ 267,272	\$ 382,694
Incurred claims and changes in estimate	(59,232)	23,310
Claims payments	<u>(63,498)</u>	<u>(138,732)</u>
Unpaid claims, end of year	\$ <u>144,542</u>	\$ <u>267,272</u>

C. Health Insurance Benefits

On March 1, 2009 the City began providing health, dental and vision insurance to its employees through a self-insurance plan. The City pays a monthly administrative premium, including a stop-loss fee, for the self-insurance plan. The City contracts with a third party administrator to direct this program. During 2017, self-insurance was in effect for claims up to \$100,000 per covered individual. Any claims exceeding this threshold are covered by stop-loss.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 15: Risk Management (continued)

C. Health Insurance Benefits (continued)

The claims liability of \$178,196 as estimated by the third party administrator and reported in the hospitalization reserve fund (an internal service fund) at December 31, 2017 is based on the requirements of GASB Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Unpaid claims, beginning of year	\$ 148,250	\$ 123,692
Incurred claims and changes in estimate	1,776,271	1,433,618
Claims payments	<u>(1,746,325)</u>	<u>(1,409,060)</u>
Unpaid claims, end of year	<u>\$ 178,196</u>	<u>\$ 148,250</u>

Note 16: Contingencies

During the normal course of business, the City is subject to occasional legal proceedings, claims, and contract disputes. In the opinion of management, the eventual outcome of any current proceedings and claims against the City will not materially affect its financial condition or operations.

Note 17: Jointly Governed Organizations

A. Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 219 communities in 14 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the thirteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2017. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 17: Jointly Governed Organizations

B. Chagrin/Southeast Council of Governments

The Chagrin/Southeast Council of Governments (Council) operates the Chagrin/Southeast HazMat Response Team (Team). The Team was formed in 1990 to assist local fire departments in responding to incidents involving industrial chemicals. In 2017, the City contributed \$3,500 to the organization. The Chagrin/Southeast Council of Governments financial statements may be obtained by contacting the Finance Director of the Village of Glenwillow, Ohio.

C. Southeast Regional Council of Governments

The City has been a member of a Southeast Regional Council of Governments (SRCG). The SRCG was formed in 2002 to foster cooperation between area municipalities relative to exchanging information, pooling manpower and dealing with reciprocal services, including mutual aid, parallel action, and the exchange of ideas.

1. Southeast Emergency Communication Center

Near the end of 2012, along with the City of Bedford, City of Garfield Heights, and City of Maple Heights, the City of Bedford Heights entered into a cooperative agreement through the SRCG to establish a sub-group of the SRCG for the purpose of constructing and operating a central safety forces dispatch facility to be known as the Southeast Emergency Communication Center (SECC). The joint dispatch center has allowed participating members to maintain state-of-the-art technologies and improve the overall efficiencies for the region's residents in a comparatively higher cost-effective manner. The City of Bedford Heights was awarded various grants for this facility, receiving \$3,303,315 during the fiscal year ended December 31, 2014 and \$393,447 in fiscal year 2015.

Of the combined \$3,696,762 grant dollars received, total grant disbursements for construction and equipment-related expenses between 2014 and December 31, 2016 amounted to \$3,613,073. In conjunction with the close-out of the various grants prior to the end of fiscal year 2016, the total amount of grant dollars expended amounted to \$3,613,073, with an additional \$83,689 being returned to Cuyahoga County for construction related costs that were not needed to complete the initial build-out.

Effective March 1, 2016, the SECC split off from the SRCG and established itself as a council of governments formed under Chapter 167 of the Ohio Revised Code.

The SECC operated from March 1, 2016 and thereon as a separate entity for the continued operation of the central safety forces dispatch center. The previous cooperative agreement and amendments to said agreement regarding the operation of the SECC remained in full force and effect after the separation. The City contributed \$472,066 to the SECC in 2017. Financial statements of the SECC may be obtained by contacting the Director of Finance for the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 17: Jointly Governed Organizations (continued)

C. Southeast Regional Council of Governments (continued)

2. Southeast Area Law Enforcement Group

Also a part of the SRCG, the Southeast Area Law Enforcement Group (SEALE) is comprised of seven municipalities in southeastern Cuyahoga County for the purpose of providing assistance in the form of a SWAT team, Bomb Unit, Investigation Unit, Narcotics Unit, Crisis Negotiation Team, and Communication Unit. In 2017, the City contributed \$5,000 to the SEALE. The SEALE financial statements may be obtained by contacting the Finance Director of the City of Bedford, 165 Center Road, Bedford, Ohio 44146.

D. First Suburbs Consortium of Northeast Ohio Council of Governments

The City is a member of the First Suburbs Consortium of Northeast Ohio Council of Government (FSC). The FSC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. The FSC is currently comprised of 18 communities. The FSC was formed to foster cooperation between municipalities in matters of mutual concern including but not limited to, initiation and support of policies and practices which protect, maintain and redevelop mature communities and other matters which affect health, safety, welfare, education, economic conditions, and regional development.

The FSC is governed by an Assembly made up on one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair, and other members elected in annual elections. The Governing Board oversees and manages the FSC. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2017, the City did not make any contributions to the FSC. Financial information can be obtained by contacting the FSC, 40 Severance Circle, Cleveland Heights, Ohio 44118.

Note 18: Other 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. The amount of the encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

	<u>Encumbrances</u>
General	\$ 62,388
Fire Levy	6,642
Issue 24 Levy	1,460
Capital improvements	92,641
Nonmajor governmental funds	<u>38,173</u>
Total other significant commitments	<u>\$ 201,304</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 19: Tax Abatement Disclosures

As of December 31, 2017, the City provides tax incentives under a Community Reinvestment Area (CRA).

Pursuant to Ohio Revised Code 3735, the City established a CRA in 1998, which included all land within the boundaries of the City. The City authorizes incentives through the passage of ordinances. The abatement equals an agreed-upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements, not to exceed 100% of the increase in the assessed value resulting from the improvements. The amount of the abatement is deducted from the recipient's property tax bill.

The Company is also expected to create an agreed-upon amount of new jobs that is negotiable based on the size of the tax abatement. If an entity receiving an abatement fails to fulfill its obligations under the CRA or if the City determines that the certification as to delinquent taxes required by the CRA is fraudulent, the City may terminate or modify the exemptions from taxation granted under the CRA and can require repayment of the amount of taxes that would have been payable had the property not been exempted from taxation.

For the year ended December 31, 2017, the City abated property taxes totaling \$5,108 under this program.

City of Bedford Heights, 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)

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.030599%	0.032857%	0.040529%	0.040529%
City's proportionate share of the net pension liability	\$ 6,948,514	\$ 5,691,248	\$ 4,888,250	\$ 4,777,841
City's covered payroll	\$ 4,012,007	\$ 3,982,755	\$ 4,963,119	\$ 5,025,260
City's proportionate share of the net pension liability as a percentage of its covered payroll	173.19%	142.90%	98.49%	95.08%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Bedford Heights, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Asset Ohio Public Employees Retirement System – Combined Plan

Last Four Years (1)

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension asset	0.029607%	0.037060%	0.046508%	0.046508%
City's proportionate share of the net pension asset	\$ 16,479	\$ 18,034	\$ 17,907	\$ 4,880
City's covered payroll	\$ 116,050	\$ 132,071	\$ 164,580	\$ 166,641
City's proportionate share of the net pension asset as a percentage of its covered payroll	14.20%	13.65%	10.88%	2.93%
Plan fiduciary net position as a percentage of the total pension asset	116.55%	116.90%	114.83%	104.56%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Bedford Heights, 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)

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.206499%	0.224923%	0.226690%	0.226690%
City's proportionate share of the net pension liability	\$ 13,079,438	\$ 14,469,453	\$ 11,743,487	\$ 11,040,514
City's covered payroll	\$ 4,450,366	\$ 4,541,021	\$ 4,526,411	\$ 4,410,703
City's proportionate share of the net pension liability as a percentage of its covered payroll	293.90%	318.64%	259.44%	250.31%
Plan fiduciary net position as a percentage of the total pension liability	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Bedford Heights, Ohio

Required Supplementary Information
 Schedule of the City's Contributions
 Ohio Public Employees Retirement System – Traditional Plan

Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 526,852	\$ 481,441	\$ 477,932	\$ 595,574	\$ 653,284
Contributions in relation to the contractually-required contribution	<u>(526,852)</u>	<u>(481,441)</u>	<u>(477,932)</u>	<u>(595,574)</u>	<u>(653,284)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,052,711	\$ 4,012,007	\$ 3,982,755	\$ 4,963,119	\$ 5,025,260
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 499,072	\$ 531,964	\$ 472,079	\$ 474,594	\$ 431,452
Contributions in relation to the contractually-required contribution	<u>(499,072)</u>	<u>(531,964)</u>	<u>(472,079)</u>	<u>(474,594)</u>	<u>(431,452)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,990,719	\$ 5,319,640	\$ 5,245,322	\$ 5,583,456	\$ 6,163,607
Contributions as a percentage of covered payroll	10.00%	10.00%	9.00%	8.50%	7.00%

The accompanying note is an integral part of the required supplementary information

City of Bedford Heights, Ohio

Required Supplementary Information
 Schedule of the City's Contributions
 Ohio Public Employees Retirement System – Combined Plan

Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 16,345	\$ 13,926	\$ 15,849	\$ 19,750	\$ 21,663
Contributions in relation to the contractually-required contribution	<u>(16,345)</u>	<u>(13,926)</u>	<u>(15,849)</u>	<u>(19,750)</u>	<u>(21,663)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 125,730	\$ 116,050	\$ 132,071	\$ 164,580	\$ 166,641
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 16,550	\$ 17,640	\$ 15,654	\$ 15,738	\$ 14,307
Contributions in relation to the contractually-required contribution	<u>(16,550)</u>	<u>(17,640)</u>	<u>(15,654)</u>	<u>(15,738)</u>	<u>(14,307)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 165,495	\$ 176,403	\$ 173,938	\$ 185,151	\$ 204,389
Contributions as a percentage of covered payroll	10.00%	10.00%	9.00%	8.50%	7.00%

The accompanying note is an integral part of the required supplementary information

City of Bedford Heights, Ohio

Required Supplementary Information Schedule of the City's Contributions Ohio Police and Fire Pension Fund

Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 860,852	\$ 944,338	\$ 962,413	\$ 959,297	\$ 799,621
Contributions in relation to the contractually-required contribution	<u>(860,852)</u>	<u>(944,338)</u>	<u>(962,413)</u>	<u>(959,297)</u>	<u>(799,621)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,069,636	\$ 4,450,366	\$ 4,541,021	\$ 4,526,411	\$ 4,410,703
Contributions as a percentage of covered payroll	21.15%	21.22%	21.19%	21.19%	18.13%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 646,326	\$ 645,138	\$ 693,266	\$ 691,965	\$ 673,168
Contributions in relation to the contractually-required contribution	<u>(646,326)</u>	<u>(645,138)</u>	<u>(693,266)</u>	<u>(691,965)</u>	<u>(673,168)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,323,601	\$ 4,306,682	\$ 4,665,546	\$ 4,674,714	\$ 4,547,675
Contributions as a percentage of covered payroll	14.95%	14.98%	14.86%	14.80%	14.80%

The accompanying note is an integral part of the required supplementary information

City of Bedford Heights, Ohio

Note to Required Supplementary Information

For the Year Ended December 31, 2017

Note 1: Change in Assumptions – OPERS Traditional and Combined Plans

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:

	<u>2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25%	3.75%
Future Salary Increases, Including Inflation	3.25-10.75% (including wage inflation at 3.25%)	4.25-10.05% (including wage inflation)
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.8% Simple
Investment Rate of Return	7.50%	8.00%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

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

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

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

City of Bedford Heights
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146

To the Members of 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 Bedford Heights, Cuyahoga 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 March 12, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 12, 2019

OHIO AUDITOR OF STATE
KEITH FABER



CITY OF BEDFORD HEIGHTS

CUYAHOGA 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
MARCH 26, 2019**