



Dave Yost • Auditor of State

**CITY OF BEDFORD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2016**

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CUYAHOGA COUNTY
DECEMBER 31, 2016**

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Dave Yost • Auditor of State

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford Heights, Cuyahoga County, Ohio, as of December 31, 2016, 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 December 6, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

December 6, 2017

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

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, 2016. 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 2016 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 \$16,846,896.
- ◆ Total assets increased by \$865,377 and deferred outflows of resources increased by \$3,253,233 in 2016. The largest increase was cash and cash equivalents of \$1,896,935. This increase was offset by a decrease in capital assets, net of \$1,268,891. The increase in deferred outflows of resources was related to the pension activity.
- ◆ Total liabilities increased by \$3,250,550 and deferred inflows of resources increased by \$1,112,388 in 2016. The main fluctuation in liabilities related to the net pension liability (up \$3,528,962). The increase in deferred inflows of resources was also related to the pension activities.
- ◆ In total, net position in governmental activities decreased by \$856,307 during 2016.

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, 2016

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.

The City maintains 26 individual 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, 2016

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, 2016

Table 1 provides a summary of the City's net position for 2016 as compared to 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 11,671,112	\$ 10,212,270	\$ 5,315,151	\$ 4,639,852	\$ 16,986,263	\$ 14,852,122
Capital assets, net	17,470,705	18,720,273	6,895,517	6,914,840	24,366,222	25,635,113
Net pension asset	<u>12,893</u>	<u>16,058</u>	<u>5,141</u>	<u>1,849</u>	<u>18,034</u>	<u>17,907</u>
Total assets	<u>29,154,710</u>	<u>28,948,601</u>	<u>12,215,809</u>	<u>11,556,541</u>	<u>41,370,519</u>	<u>40,505,142</u>
Deferred outflows of resources – pension	<u>4,856,637</u>	<u>2,019,891</u>	<u>620,839</u>	<u>204,352</u>	<u>5,477,476</u>	<u>2,224,243</u>
Liabilities:						
Current liabilities	730,256	760,404	216,561	120,347	946,817	880,751
Long-term liabilities						
Due within one year	1,199,258	1,198,102	244,409	235,820	1,443,667	1,433,922
Other amounts due in more than one year	2,151,803	2,396,929	306,771	415,868	2,458,574	2,812,797
Net pension liability	<u>18,538,460</u>	<u>15,291,144</u>	<u>1,622,241</u>	<u>1,340,595</u>	<u>20,160,701</u>	<u>16,631,739</u>
Total liabilities	<u>22,619,777</u>	<u>19,646,579</u>	<u>2,389,982</u>	<u>2,112,630</u>	<u>25,009,759</u>	<u>21,759,209</u>
Deferred inflows of resources:						
Property taxes	4,136,590	3,787,611	-	-	4,136,590	3,787,611
Pension	<u>644,210</u>	<u>67,225</u>	<u>210,540</u>	<u>24,116</u>	<u>854,750</u>	<u>91,341</u>
Total deferred inflows of resources	<u>4,780,800</u>	<u>3,854,836</u>	<u>210,540</u>	<u>24,116</u>	<u>4,991,340</u>	<u>3,878,952</u>
Net position:						
Net investment in capital assets	16,365,540	17,383,165	6,663,471	6,573,626	23,029,011	23,956,791
Restricted for:						
Capital projects	331,209	447,566	-	-	331,209	447,566
Debt service	391,190	231,738	-	-	391,190	231,738
Streets	159,615	155,505	-	-	159,615	155,505
Public safety	200,733	254,453	-	-	200,733	254,453
Other purposes	1,504	1,568	-	-	1,504	1,568
Unrestricted	<u>(10,839,021)</u>	<u>(11,006,918)</u>	<u>3,572,655</u>	<u>3,050,521</u>	<u>(7,266,366)</u>	<u>(7,956,397)</u>
Total Net Position	\$ <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>

The net pension liability (NPL) is the largest liability reported by the City at December 31, 2016 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, 2016

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, 2016

Total assets increased \$865,377. Cash and cash equivalents increased by \$1,896,935 which was offset by a decrease in net capital assets of \$1,268,891. The increase in cash and cash equivalents is the product of multiple events during 2016. The first major item was increased property and income tax collections in 2016 caused cash to increase about \$885,000. The second major item relates to the closure of the corrections facility. The City was able to reduce costs by approximately \$650,000. Finally, debt service costs were down about \$150,000 in 2016. The decrease in capital assets is a direct result of the City reducing capital activity in 2016 which led to depreciation exceeding net additions.

The total net position of the City decreased \$244,328. The following factors were most responsible for this decrease:

- An increase in cash and cash equivalents of \$1,896,935
- A decrease in capital assets of \$1,268,891
- An increase in deferred outflows of resources – pension of \$3,253,233
- An increase in net pension liability of \$3,528,962
- An increase in deferred inflows of resources of \$1,112,388

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 \$611,979 in 2016. 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, 2016

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program revenues						
Charges for services	\$ 1,432,637	\$ 1,728,710	\$ 3,461,795	\$ 3,823,716	\$ 4,894,432	\$ 5,552,426
Operating grants	11,609	21,563	-	-	11,609	21,563
Capital grants	<u>54,250</u>	<u>1,074,817</u>	<u>30,333</u>	<u>27,333</u>	<u>84,583</u>	<u>1,102,150</u>
Total program revenues	<u>1,498,496</u>	<u>2,825,090</u>	<u>3,492,128</u>	<u>3,851,049</u>	<u>4,990,624</u>	<u>6,676,139</u>
General revenues						
Property taxes	4,292,203	4,063,047	-	-	4,292,203	4,063,047
Income taxes	9,629,804	8,691,702	-	-	9,629,804	8,691,702
Grants and entitlements	1,357,673	1,360,256	-	-	1,357,673	1,360,256
Investment earnings	3,304	677	1,017	144	4,321	821
Other	<u>40,032</u>	<u>8,594</u>	<u>35,063</u>	<u>-</u>	<u>75,095</u>	<u>8,594</u>
Total revenues	<u>16,821,512</u>	<u>16,949,366</u>	<u>3,528,208</u>	<u>3,851,193</u>	<u>20,349,720</u>	<u>20,800,559</u>
Program expenses						
General government	4,452,266	4,295,743	-	-	4,452,266	4,295,743
Security of persons and property	8,857,918	8,627,951	-	-	8,857,918	8,627,951
Public health and welfare	260,440	262,053	-	-	260,440	262,053
Leisure time activities	1,379,916	1,600,064	-	-	1,379,916	1,600,064
Community development	295,021	330,924	-	-	295,021	330,924
Basic utility services	638,094	651,285	-	-	638,094	651,285
Transportation	1,772,146	1,804,071	-	-	1,772,146	1,804,071
Interest and fiscal charges	22,018	30,556	-	-	22,018	30,556
Sewer	-	-	<u>2,916,229</u>	<u>2,797,183</u>	<u>2,916,229</u>	<u>2,797,183</u>
Total program expenses	<u>17,677,819</u>	<u>17,602,647</u>	<u>2,916,229</u>	<u>2,797,183</u>	<u>20,594,048</u>	<u>20,399,830</u>
Change in net position	(856,307)	(653,281)	611,979	1,054,010	(244,328)	400,729
Net position, beginning of year	<u>7,467,077</u>	<u>8,120,358</u>	<u>9,624,147</u>	<u>8,570,137</u>	<u>17,091,224</u>	<u>16,690,495</u>
Net position, end 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>

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 2016, the revenues generated from this tax amounted to \$9,629,804. 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, 2016

Security of persons and property and general government are the major activities of the City generating 75.3% of the governmental expenses. As of December 31, 2016 the fire department is comprised of 25 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 (3) 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, 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 2016, the department responded to 2,056 calls with 72% 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 department aggressively pursues available funding through state and federal grants. Over the past several years, the department was awarded approximately \$2.9 million in intergovernmental grants to work on the Joint Dispatch Center project as well as obtaining electronic cots awarded by the Ohio Bureau of Worker's Compensation. The amount the department spent on overtime expenses during 2016 was \$256,972 as compared to \$289,098 during 2015. The total cost of operating the Fire and EMS department during 2016 was \$2,767,180, 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 2016, the transfer from the general fund was \$2,163,000.

The City spent approximately \$497,000 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 \$611,979.

Net program revenues exceeded program expenses in the amount of \$575,899 for the sewer operations during 2016 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, 2016

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 \$21,324,886 and expenditures and other financing uses of \$20,054,674. 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 \$847,384 which resulted in a year-end fund balance of \$3,397,050. The increase in fund balance was mainly due to an increase in income taxes of \$671,781 and the elimination of the corrections facility resulting in reduced expenses of \$653,151.

The capital improvements fund reflected an increase in fund balance of \$71,046, which resulted in a fund balance of \$596,759.

The issue 24 levy fund ending fund balance increased \$82,408 during 2016. The fire levy fund and nonmajor government funds ending fund balance increased \$88,135 and \$181,239, 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 2016, the City experienced an increase in income tax revenues, which is estimated to increase slightly for 2017.

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 \$11,597,758 increased from the original budget estimates of \$11,518,942 due to greater than originally expected municipal income tax revenues. The original appropriations for the general fund were \$11,743,015, including other financing uses. The final appropriations, including other financing uses, were \$11,821,831. The City historically budgets to expend nearly 100% of their available resources, when actually 101.9% of available resources were budgeted to be expended in 2016. The City's actual expenditures ended \$145,465 below the final budgeted amount.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

The City's ending unobligated budgetary fund balance was \$532,228 higher than the final budgeted amount mostly due to greater than expected income tax revenues and lower than expected general government expenditures.

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 2016, the City had \$24,366,222 invested in land, buildings and improvements, furniture, fixtures and equipment, vehicles, and infrastructure.

Table 3 shows fiscal 2016 balances of capital assets as compared to 2015:

Table 3
 Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,231,201	\$ 2,231,201	\$ 99,200	\$ 99,200	\$ 2,330,401	\$ 2,330,401
Buildings and improvements	20,223,974	20,145,493	4,818,539	4,658,886	25,042,513	24,804,379
Furniture, fixtures and equipment	6,134,412	3,612,545	7,702,547	7,617,813	13,836,959	11,230,358
Vehicles	3,239,278	3,353,951	361,445	382,799	3,600,723	3,736,750
Infrastructure	15,791,408	15,791,408	6,851,320	6,851,320	22,642,728	22,642,728
Construction in progress	-	2,503,649	-	-	-	2,503,649
Less: accumulated depreciation	<u>(30,149,568)</u>	<u>(28,917,974)</u>	<u>(12,937,534)</u>	<u>(12,695,178)</u>	<u>(43,087,102)</u>	<u>(41,613,152)</u>
Total Capital Assets	\$ <u>17,470,705</u>	\$ <u>18,720,273</u>	\$ <u>6,895,517</u>	\$ <u>6,914,840</u>	\$ <u>24,366,222</u>	\$ <u>25,635,113</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. In 2015, the City ordered one cruiser through direct purchase, which was received, outfitted, and placed into service in 2015.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2016

In 2016, the Police Department received a vehicle during 2016 through a court order. The vehicle was assigned a value of \$16,000 through discussion with the City's insurance agent. Upon replacement, the older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

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. We have 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, 2016, the City had \$24,062,942 in outstanding debt, compensated absences, matured compensated absences, claims payable and net pension liability, of which \$580,000 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			
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 350,900	\$ 512,800	\$ 229,100	\$ 337,200	\$ 580,000	\$ 850,000
Capital leases payable	96,051	126,723	2,946	4,014	98,997	130,737
OPWC loans payable	658,214	697,585	-	-	658,214	697,585
Compensated absences	1,830,374	1,751,537	319,134	310,474	2,149,508	2,062,011
Claims payable	415,522	506,386	-	-	415,522	506,386
Net pension liability	18,538,460	15,291,144	1,622,241	1,340,595	20,160,701	16,631,739
<i>Total</i>	<u>\$ 21,889,521</u>	<u>\$ 18,886,175</u>	<u>\$ 2,173,421</u>	<u>\$ 1,992,283</u>	<u>\$ 24,062,942</u>	<u>\$ 20,878,458</u>

At December 31, 2016, the City's overall legal debt margin was \$22,676,012. At year-end, the outstanding general obligation debt was \$580,000. 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, 2016

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. Based on estimates provided by the Cuyahoga County Auditor's office, real property tax revenue from the Issue 24 levy for fiscal year 2017 is estimated to be \$1,687,417. 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, 2016

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets:			
Cash and cash equivalents	\$ 3,698,047	\$ 3,821,325	\$ 7,519,372
Accounts receivable	149,523	1,387,869	1,537,392
Intergovernmental receivable	631,891	-	631,891
Supplies and materials inventory	97,512	58,707	156,219
Prepaid assets	69,503	47,250	116,753
Property taxes receivable	4,644,632	-	4,644,632
Income taxes receivable	2,380,004	-	2,380,004
Non-depreciable capital assets	2,231,201	99,200	2,330,401
Depreciable assets, net	15,239,504	6,796,317	22,035,821
Net pension asset	<u>12,893</u>	<u>5,141</u>	<u>18,034</u>
Total assets	<u>29,154,710</u>	<u>12,215,809</u>	<u>41,370,519</u>
Deferred outflows of resources:			
Pension	<u>4,856,637</u>	<u>620,839</u>	<u>5,477,476</u>
Liabilities:			
Accounts payable	319,249	149,310	468,559
Accrued wages and benefits	393,389	66,571	459,960
Matured compensated absences	16,563	-	16,563
Accrued interest payable	1,055	680	1,735
Long term liabilities:			
Due within one year	1,199,258	244,409	1,443,667
Due in more than one year:			
Other amounts due in more than one year	2,151,803	306,771	2,458,574
Net pension liability	<u>18,538,460</u>	<u>1,622,241</u>	<u>20,160,701</u>
Total liabilities	<u>22,619,777</u>	<u>2,389,982</u>	<u>25,009,759</u>
Deferred inflows of resources:			
Property taxes	4,136,590	-	4,136,590
Pensions	<u>644,210</u>	<u>210,540</u>	<u>854,750</u>
Total deferred inflows of resources	<u>4,780,800</u>	<u>210,540</u>	<u>4,991,340</u>
Net position:			
Net investment in capital assets	16,365,540	6,663,471	23,029,011
Restricted for:			
Capital projects	331,209	-	331,209
Debt service	391,190	-	391,190
Streets	159,615	-	159,615
Public safety	200,733	-	200,733
Other purposes	1,504	-	1,504
Unrestricted (deficit)	<u>(10,839,021)</u>	<u>3,572,655</u>	<u>(7,266,366)</u>
Total net position	\$ <u>6,610,770</u>	\$ <u>10,236,126</u>	\$ <u>16,846,896</u>

See Accompanying Notes to the Basic Financial Statements

City of Bedford Heights, Ohio

Statement of Activities

For The Year Ended December 31, 2016

	<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	\$ 4,452,266	\$ 412,127	\$ -	\$ -
Security of persons and property	8,857,918	501,907	11,609	16,000
Public health and welfare	260,440	25,189	-	-
Leisure time activities	1,379,916	302,657	-	-
Community development	295,021	190,757	-	-
Basic utility services	638,094	-	-	-
Transportation	1,772,146	-	-	38,250
Interest and fiscal charges	<u>22,018</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	17,677,819	1,432,637	11,609	54,250
Business-type activities:				
Sewer	<u>2,916,229</u>	<u>3,461,795</u>	<u>-</u>	<u>30,333</u>
 Total	 \$ <u>20,594,048</u>	 \$ <u>4,894,432</u>	 \$ <u>11,609</u>	 \$ <u>84,583</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

Gain on sale of capital assets

Miscellaneous income

Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business Type Activities	Total
\$ (4,040,139)	\$ -	\$ (4,040,139)
(8,328,402)	-	(8,328,402)
(235,251)	-	(235,251)
(1,077,259)	-	(1,077,259)
(104,264)	-	(104,264)
(638,094)	-	(638,094)
(1,733,896)	-	(1,733,896)
<u>(22,018)</u>	<u>-</u>	<u>(22,018)</u>
(16,179,323)	-	(16,179,323)
<u>-</u>	<u>575,899</u>	<u>575,899</u>
<u>(16,179,323)</u>	<u>575,899</u>	<u>(15,603,424)</u>
1,214,362	-	1,214,362
2,447,333	-	2,447,333
238,931	-	238,931
391,577	-	391,577
9,629,804	-	9,629,804
1,357,673	-	1,357,673
3,304	1,017	4,321
-	35,063	35,063
<u>40,032</u>	<u>-</u>	<u>40,032</u>
<u>15,323,016</u>	<u>36,080</u>	<u>15,359,096</u>
(856,307)	611,979	(244,328)
<u>7,467,077</u>	<u>9,624,147</u>	<u>17,091,224</u>
<u>\$ 6,610,770</u>	<u>\$ 10,236,126</u>	<u>\$ 16,846,896</u>

City of Bedford Heights, Ohio

Balance Sheet Governmental Funds

December 31, 2016

	<u>General</u>	<u>Fire Levy</u>
Assets:		
Cash and cash equivalents	\$ 1,741,268	\$ 142,956
Accounts receivable	42,966	30
Intergovernmental receivable	195,830	27,487
Supplies and materials inventory	9,491	-
Prepaid assets	69,503	-
Property taxes receivable	1,357,336	636,252
Income taxes receivable	<u>2,380,004</u>	<u>-</u>
 Total assets	 \$ <u>5,796,398</u>	 \$ <u>806,725</u>
Liabilities:		
Accounts payable	\$ 131,753	\$ -
Accrued wages and benefits	112,505	68,351
Matured compensated absences	<u>8,487</u>	<u>-</u>
 Total liabilities	 <u>252,745</u>	 <u>68,351</u>
Deferred inflows of resources:		
Property taxes	1,208,867	566,657
Unavailable revenue	<u>937,736</u>	<u>97,082</u>
 Total deferred inflows of resources	 <u>2,146,603</u>	 <u>663,739</u>
Fund balances:		
Nonspendable	84,830	-
Restricted	96,438	74,635
Committed	76,980	-
Assigned	78,933	-
Unassigned	<u>3,059,869</u>	<u>-</u>
 Total fund balances	 <u>3,397,050</u>	 <u>74,635</u>
 Total liabilities, deferred inflows of resources and fund balances	 \$ <u>5,796,398</u>	 \$ <u>806,725</u>

See Accompanying Notes to the Basic Financial Statements

<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 137,943	\$ 771,301	\$ 743,978	\$ 3,537,446
-	12,682	93,845	149,523
87,485	18,325	302,764	631,891
-	-	88,021	97,512
-	-	-	69,503
1,887,546	424,168	339,330	4,644,632
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,380,004</u>
\$ <u>2,112,974</u>	\$ <u>1,226,476</u>	\$ <u>1,567,938</u>	\$ <u>11,510,511</u>
\$ -	\$ 187,224	\$ 272	\$ 319,249
87,881	-	124,652	393,389
<u>8,076</u>	<u>-</u>	<u>-</u>	<u>16,563</u>
<u>95,957</u>	<u>187,224</u>	<u>124,924</u>	<u>729,201</u>
1,681,081	377,771	302,214	4,136,590
<u>288,010</u>	<u>64,722</u>	<u>312,373</u>	<u>1,699,923</u>
<u>1,969,091</u>	<u>442,493</u>	<u>614,587</u>	<u>5,836,513</u>
-	-	88,021	172,851
47,926	266,487	657,948	1,143,434
-	330,272	82,458	489,710
-	-	-	78,933
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,059,869</u>
<u>47,926</u>	<u>596,759</u>	<u>828,427</u>	<u>4,944,797</u>
\$ <u>2,112,974</u>	\$ <u>1,226,476</u>	\$ <u>1,567,938</u>	\$ <u>11,510,511</u>

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City of Bedford Heights, Ohio

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

December 31, 2016

Total Governmental fund balances \$ 4,944,797

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. 17,470,705

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

Property and other taxes	\$ 508,044	
Municipal income taxes	640,453	
Charges for services	63,036	
Intergovernmental	<u>488,390</u>	
Total		1,699,923

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (1,055)

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. (254,921)

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

General obligation bonds	(350,900)	
OPWC loans payable	(658,214)	
Capital lease payable	(96,051)	
Compensated absences	<u>(1,830,374)</u>	
Total		(2,935,539)

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	12,893	
Deferred outflows of resources	4,856,637	
Net pension liability	(18,538,460)	
Deferred inflows of resources	<u>(644,210)</u>	
Total		<u>(14,313,140)</u>

Net position of governmental activities \$ 6,610,770

See Accompanying Notes to the Basic Financial Statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2016

	<u>General</u>	<u>Fire Levy</u>
Revenues:		
Property taxes	\$ 1,211,270	\$ 588,684
Municipal income taxes	9,648,675	-
Intergovernmental	392,013	59,695
Charges for services	342,366	-
Licenses and permits	136,748	-
Fines and forfeitures	210,337	-
Investment income	2,649	-
Miscellaneous income	<u>276,443</u>	<u>43,936</u>
Total revenues	<u>12,220,501</u>	<u>692,315</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	882,748	2,767,180
Public health and welfare	258,521	-
Leisure time activities	1,080,061	-
Community development	293,600	-
Basic utility services	634,378	-
Transportation	-	-
General government	3,782,793	-
Capital outlay	-	-
Debt service:		
Principal retirement	4,271	-
Interest and fiscal charges	<u>-</u>	<u>-</u>
Total expenditures	<u>6,936,372</u>	<u>2,767,180</u>
Excess of revenues over (under) expenditures	<u>5,284,129</u>	<u>(2,074,865)</u>
Other financing sources (uses):		
Transfers – in	-	2,163,000
Transfers – out	(4,439,995)	-
Sale of capital assets	<u>3,250</u>	<u>-</u>
Total other financing (uses) sources	<u>(4,436,745)</u>	<u>2,163,000</u>
Net change in fund balances	847,384	88,135
Fund balances at beginning of year	<u>2,549,666</u>	<u>(13,500)</u>
Fund balances at end of year	\$ <u>3,397,050</u>	\$ <u>74,635</u>

See Accompanying Notes to the Basic Financial Statements

<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,746,422	\$ 392,456	\$ 363,011	\$ 4,301,843
-	-	-	9,648,675
175,631	75,109	715,012	1,417,460
-	-	294,914	637,280
-	117,969	25,448	280,165
-	-	3,205	213,542
-	636	-	3,285
<u>-</u>	<u>24,585</u>	<u>33,195</u>	<u>378,159</u>
<u>1,922,053</u>	<u>610,755</u>	<u>1,434,785</u>	<u>16,880,409</u>
3,202,640	-	1,100,212	7,952,780
-	-	-	258,521
-	11,260	264	1,091,585
-	-	-	293,600
-	-	-	634,378
-	23,844	647,261	671,105
-	31,543	29,883	3,844,219
-	614,067	-	614,067
-	65,772	161,900	231,943
<u>-</u>	<u>3,223</u>	<u>19,258</u>	<u>22,481</u>
<u>3,202,640</u>	<u>749,709</u>	<u>1,958,778</u>	<u>15,614,679</u>
<u>(1,280,587)</u>	<u>(138,954)</u>	<u>(523,993)</u>	<u>1,265,730</u>
1,362,995	210,000	704,000	4,439,995
-	-	-	(4,439,995)
<u>-</u>	<u>-</u>	<u>1,232</u>	<u>4,482</u>
<u>1,362,995</u>	<u>210,000</u>	<u>705,232</u>	<u>4,482</u>
82,408	71,046	181,239	1,270,212
<u>(34,482)</u>	<u>525,713</u>	<u>647,188</u>	<u>3,674,585</u>
\$ <u>47,926</u>	\$ <u>596,759</u>	\$ <u>828,427</u>	\$ <u>4,944,797</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, 2016

Net change in fund balances - total governmental funds \$ 1,270,212

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	\$ 112,803	
Capital contributions	16,000	
Depreciation	<u>(1,369,813)</u>	
Total		(1,241,010)

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. (8,558)

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	(9,640)	
Municipal income taxes	(18,871)	
Intergovernmental	(9,928)	
Charges for services	<u>(36,477)</u>	
Total		(74,916)

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	161,900	
OPWC loans	39,371	
Capital leases	<u>30,672</u>	
Total		231,943

(continued)

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, 2016

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. 35,116

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	(78,837)	
Accrued interest payable	<u>463</u>	
Total		(78,374)

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 1,298,504

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. (2,289,224)

Change in net position of governmental activities \$ (856,307)

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, 2016

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,176,968	\$ 1,176,968	\$ 1,211,270	\$ 34,302
Municipal income taxes	9,129,351	9,198,925	9,460,872	261,947
Intergovernmental	381,355	384,261	395,203	10,942
Charges for services	304,602	306,923	315,663	8,740
Licenses and permits	132,371	133,380	137,178	3,798
Fines and forfeitures	203,989	205,544	211,397	5,853
Miscellaneous income	187,170	188,597	193,967	5,370
Total revenues	<u>11,515,806</u>	<u>11,594,598</u>	<u>11,925,550</u>	<u>330,952</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	912,317	880,150	874,516	5,634
Public health	289,350	259,363	258,750	613
Leisure time activities	1,191,985	1,108,060	1,078,366	29,694
Community development	295,475	320,090	298,481	21,609
Basic utility services	661,196	640,221	634,668	5,553
General government	3,789,692	3,713,222	3,628,314	84,908
Debt service:				
Principal	-	-	4,271	(4,271)
Total expenditures	<u>7,140,015</u>	<u>6,921,106</u>	<u>6,777,366</u>	<u>143,740</u>
Excess of revenues over expenditures	<u>4,375,791</u>	<u>4,673,492</u>	<u>5,148,184</u>	<u>474,692</u>
Other financing sources (uses):				
Sale of capital assets	3,136	3,160	3,250	90
Transfers – out	(4,603,000)	(4,900,725)	(4,899,000)	1,725
Total other financing sources (uses)	<u>(4,599,864)</u>	<u>(4,897,565)</u>	<u>(4,895,750)</u>	<u>1,815</u>
Net change in fund balance	(224,073)	(224,073)	252,434	476,507
Fund balance at beginning of year	236,183	236,183	236,183	-
Encumbrances at end of year	-	-	55,721	55,721
Fund balance at end of year	\$ <u>12,110</u>	\$ <u>12,110</u>	\$ <u>544,338</u>	\$ <u>532,228</u>

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, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 574,131	\$ 574,131	\$ 588,684	\$ 14,553
Intergovernmental	134,053	68,078	59,695	(8,383)
Miscellaneous income	<u>98,597</u>	<u>50,072</u>	<u>43,906</u>	<u>(6,166)</u>
Total revenues	806,781	692,281	692,285	4
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>3,011,019</u>	<u>2,896,519</u>	<u>2,775,953</u>	<u>120,566</u>
Excess of revenues under expenditures	(2,204,238)	(2,204,238)	(2,083,668)	120,570
Other financing sources:				
Transfers – in	<u>2,163,000</u>	<u>2,163,000</u>	<u>2,163,000</u>	<u>-</u>
Net change in fund balance	(41,238)	(41,238)	79,332	120,570
Fund balance at beginning of year	57,157	57,157	57,157	-
Encumbrances at end of year	<u>-</u>	<u>-</u>	<u>6,467</u>	<u>6,467</u>
Fund balance at end of year	\$ <u>15,919</u>	\$ <u>15,919</u>	\$ <u>142,956</u>	\$ <u>127,037</u>

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, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,703,255	\$ 1,703,255	\$ 1,746,422	\$ 43,167
Intergovernmental	<u>317,005</u>	<u>212,005</u>	<u>169,691</u>	<u>(42,314)</u>
Total revenues	2,020,260	1,915,260	1,916,113	853
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>3,427,882</u>	<u>3,322,882</u>	<u>3,204,022</u>	<u>118,860</u>
Excess of revenues under expenditures	(1,407,622)	(1,407,622)	(1,287,909)	119,713
Other financing sources:				
Transfers – in	<u>1,362,995</u>	<u>1,362,995</u>	<u>1,362,995</u>	<u>-</u>
Net change in fund balance	(44,627)	(44,627)	75,086	119,713
Fund balance at beginning of year	56,798	56,798	56,798	-
Encumbrances at end of year	<u>-</u>	<u>-</u>	<u>6,059</u>	<u>6,059</u>
Fund balance at end of year	\$ <u>12,171</u>	\$ <u>12,171</u>	\$ <u>137,943</u>	\$ <u>125,772</u>

City of Bedford Heights, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2016

	Business-Type Activities Sewer Treatment Fund	Governmental Activities Internal Service Fund
Assets:		
Current assets:		
Cash and cash equivalents	\$ 3,821,325	\$ 160,601
Accounts receivable, net	1,387,869	-
Supplies and materials inventory	58,707	-
Prepaid expenses	47,250	-
Total current assets	<u>5,315,151</u>	<u>160,601</u>
Noncurrent assets:		
Non-depreciable capital assets	99,200	-
Depreciable capital assets, net	6,796,317	-
Net pension asset	5,141	-
Total noncurrent assets	<u>6,900,658</u>	<u>-</u>
Total assets	<u>12,215,809</u>	<u>160,601</u>
Deferred outflows our resources:		
Pension	<u>620,839</u>	<u>-</u>
Liabilities:		
Current liabilities:		
Accounts payable	149,310	-
Accrued wages and benefits	66,571	-
Intergovernmental payable	-	-
Accrued interest payable	680	-
Claims payable	-	211,748
Accrued compensated absences	130,880	-
Capital lease payable	1,129	-
General obligation bond payable	112,400	-
Total current liabilities	<u>460,970</u>	<u>211,748</u>
Long-term liabilities (net of current portion):		
Claims payable	-	203,774
Accrued compensated absences	188,254	-
Capital lease payable	1,817	-
General obligation bond payable	116,700	-
Net pension liability	1,622,241	-
Total long-term liabilities	<u>1,929,012</u>	<u>203,774</u>
Total liabilities	<u>2,389,982</u>	<u>415,522</u>
Deferred inflows of resources:		
Pension	<u>210,540</u>	<u>-</u>
Net position:		
Net investment in capital assets	6,663,471	-
Unrestricted	3,572,655	(254,921)
Total net position	<u>\$ 10,236,126</u>	<u>\$ (254,921)</u>

See Accompanying Notes to the Basic 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, 2016

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
Operating revenues:		
Charges for services	\$ 3,416,443	\$ 1,496,990
Other	<u>45,352</u>	<u>-</u>
Total operating revenues	<u>3,461,795</u>	<u>1,496,990</u>
Operating expenses:		
Personal services	1,763,441	-
Travel and education	11,330	-
Contractual services	662,854	4,965
Supplies and materials	152,203	-
Claims	-	1,456,928
Depreciation	<u>315,932</u>	<u>-</u>
Total operating expenses	<u>2,905,760</u>	<u>1,461,893</u>
Operating income	<u>556,035</u>	<u>35,097</u>
Non-operating revenues (expenses):		
Investment income	1,017	19
Interest and fiscal charges	(10,469)	-
Gain on sale of capital assets	<u>35,063</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>25,611</u>	<u>19</u>
Income before contributions	581,646	35,116
Capital contributions	<u>30,333</u>	<u>-</u>
Change in net position	611,979	35,116
Net position at beginning of year	<u>9,624,147</u>	<u>(290,037)</u>
Net position at end of year	<u>\$ 10,236,126</u>	<u>\$ (254,921)</u>

See Accompanying Notes to the Basic Financial Statements

City of Bedford Heights, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2016

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
Cash flows from operating activities		
Cash received from customers	\$ 3,615,105	\$ -
Cash received from interfund services	-	1,496,990
Cash payments for goods and services	(652,125)	(4,965)
Cash payments to employees for services and benefits	(1,705,586)	-
Cash payments for materials and supplies	(140,312)	-
Cash payments for claims	-	(1,547,792)
Cash received for other operating activities	<u>45,352</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>1,162,434</u>	<u>(55,767)</u>
Cash flows from capital and related financing activities		
Acquisition and construction of assets	(237,328)	-
Capital contributions	30,333	-
Proceeds from sale of capital assets	43,238	-
Principal paid	(109,168)	-
Interest paid	<u>(10,773)</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(283,698)</u>	<u>-</u>
Cash flows from investing activities		
Interest received	<u>1,017</u>	<u>19</u>
Net increase (decrease) in cash and cash equivalents	879,753	(55,748)
Cash and cash equivalents at beginning of year	<u>2,941,572</u>	<u>216,349</u>
Cash and cash equivalents at end of year	<u>\$ 3,821,325</u>	<u>\$ 160,601</u>

See Accompanying Notes to the Basic Financial Statements

City of Bedford Heights, Ohio

Statement of Cash Flows (Continued) Proprietary Funds

For the Year Ended December 31, 2016

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
<i>Reconciliation of operating income to net cash from operating activities:</i>		
Operating income	\$ 556,035	\$ 35,097
Adjustments:		
Depreciation	315,932	-
Changes in assets/liabilities		
Increase in accounts receivable, net	198,662	-
Increase in prepaid expenses	(1,572)	-
Decrease in supplies and materials inventory	7,364	-
Increase in net pension asset	(3,292)	-
Increase in deferred outflows – pension	(416,488)	-
Increase in accounts payable	26,463	-
Decrease in accrued wages and benefits	9,843	-
Increase in claims payable	-	(90,864)
Increase in accrued compensated absences	8,660	-
Decrease in intergovernmental payable	(7,244)	-
Increase in net pension liability	281,646	-
Increase in deferred inflows – pension	<u>186,425</u>	<u>-</u>
Net cash provided by (used for) operating activities	\$ <u>1,162,434</u>	\$ <u>(55,767)</u>
Non-cash investing and capital financing activities:		
Capital assets purchased on account	\$ 67,456	\$ -

See Accompanying Notes to the Basic Financial Statements

City of Bedford Heights, Ohio

Statement of Fiduciary Net Position
Agency Funds

December 31, 2016

	<u>Agency</u>
Assets:	
Cash and cash equivalents	\$ <u>64,558</u>
Liabilities:	
Due to others	\$ 12,735
Intergovernmental payable	<u>51,823</u>
Total liabilities	\$ <u>64,558</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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 the pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance fiscal year 2017 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, 2016

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 2016. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2016.

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, 2016

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 2016, 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, 2016

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 2016, 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 2016 amounted to \$2,649, which includes \$511 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, 2016, 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, 2016

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 are recorded at their fair market values as of the date received. 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, 2016

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, 2016

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 \$1,084,251 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, 2016

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.

S. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. The City had capital contributions related to tap-in fees during 2016.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 3: Change in Accounting Principles

For the year ended December 31, 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*.

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

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. These changes were incorporated into the City's financial statements; however, there was no effect on beginning net position.

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

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. These changes were incorporated into the City's financial statements; however, there was no effect on the beginning net position.

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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	\$ 69,503	\$ -	\$ -	\$ -	\$ -	\$ 69,503
Inventory	9,491	-	-	-	88,021	97,512
Unclaimed monies	5,836	-	-	-	-	5,836
Total nonspendable	<u>84,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,021</u>	<u>172,851</u>
Restricted:						
Fire Levy	-	74,635	-	-	-	74,635
Issue 24 Levy	-	-	47,926	-	-	47,926
Debt service payments	-	-	-	-	319,617	319,617
State highway	-	-	-	-	13,750	13,750
Street construction	-	-	-	-	204,796	204,796
Police and fire pensions	-	-	-	-	86,008	86,008
Law enforcement trust	-	-	-	-	3,204	3,204
DUI enforcement	-	-	-	-	4,985	4,985
JAG Byrne grant	-	-	-	-	948	948
Mayor's court computer	-	-	-	-	19,952	19,952
Local law enforcement block grant	-	-	-	-	829	829
Juvenile community diversion	-	-	-	-	2,287	2,287
Sobriety checkpoint	-	-	-	-	68	68
Garden club	-	-	-	-	1,504	1,504
Capital improvements	-	-	-	266,487	-	266,487
Tax incentive review	22,181	-	-	-	-	22,181
Other purposes	74,257	-	-	-	-	74,257
Total restricted	<u>96,438</u>	<u>74,635</u>	<u>47,926</u>	<u>266,487</u>	<u>657,948</u>	<u>1,143,434</u>
Committed:						
Capital improvements	-	-	-	330,272	-	330,272
Safety department equipment	-	-	-	-	3,020	3,020
Ambulance billing	-	-	-	-	9,273	9,273
Cable TV program	-	-	-	-	70,165	70,165
Termination benefits	76,980	-	-	-	-	76,980
Total committed	<u>76,980</u>	<u>-</u>	<u>-</u>	<u>330,272</u>	<u>82,458</u>	<u>489,710</u>
Assigned:						
Year 2017 appropriations	47,255	-	-	-	-	47,255
Purchases on order	31,678	-	-	-	-	31,678
Total assigned	<u>78,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,933</u>
Unassigned (deficit)	<u>3,059,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,059,869</u>
Total fund balance	\$ <u>3,397,050</u>	\$ <u>74,635</u>	\$ <u>47,926</u>	\$ <u>596,759</u>	\$ <u>828,427</u>	\$ <u>4,944,797</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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.

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	\$ 847,384	\$ 88,135	\$ 82,408
<u>Increase (decrease) due to:</u>			
Revenue accruals	(200,212)	(30)	(5,940)
Expenditure accruals	(308,924)	(2,306)	4,677
Encumbrances	(55,721)	(6,467)	(6,059)
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	<u>(30,093)</u>	<u>-</u>	<u>-</u>
Budget basis	\$ <u>252,434</u>	\$ <u>79,332</u>	\$ <u>75,086</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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 notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 6: Deposits and Investments (continued)

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. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$6,762,100 and the bank balance was \$7,126,846. Of the bank balance, \$500,000 was covered by the Federal Depository Insurance Corporation and \$6,626,846 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, 2016, 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	\$ 821,580	\$ 821,580	\$ -

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, 2016, the average days to maturity was 51.6.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 6: Deposits and Investments (continued)

B. Investments (continued)

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.

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, 2016:

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

Note 7: Receivables

Receivables at December 31, 2016 consisted primarily of taxes, accounts, special assessments and intergovernmental receivables arising from shared revenues. The sewer treatment fund accounts receivable is net of a \$129,263 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 2016 for real and public utility property taxes represents collections for 2015 taxes. Property tax payments received during 2016 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 7: Receivables (continued)

A. Property Taxes (continued)

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.

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 assessed values per category applicable to the 2016 tax collections are as follows:

Assessed Value

Category	
Real estate	\$ 211,901,000
Public utility	<u>6,540,860</u>
Total	\$ <u>218,441,860</u>

The tax rate levied to finance the City's services for the years ended December 31, 2016 and December 31, 2015 was \$21.9 per \$1,000 of real estate and personal property valuation.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 7: Receivables (continued)

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	\$ 137,191
Homestead and rollback	200,657
Gasoline tax	189,259
Auto registration	51,116
CAT tax	40,267
Permissive auto tax	7,461
Other	<u>5,940</u>
Total	<u>\$ 631,891</u>

Note 8: Interfund Transactions

Interfund transfers for the year ended December 31, 2016, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>
	General Fund
Fire Levy Fund	\$ 2,163,000
Issue 24 Levy Fund	1,362,995
Capital Improvements Fund	210,000
Nonmajor governmental funds	<u>704,000</u>
Total	<u>\$ 4,439,995</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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 9: Capital Assets

A summary of changes in capital assets during 2016 follows:

	Balance 12/31/15	Additions	Disposals	Balance 12/31/16
Governmental activities:				
Non-depreciable assets:				
Land	\$ 2,231,201	\$ -	\$ -	\$ 2,231,201
Construction in progress	<u>2,503,649</u>	<u>18,688</u>	<u>(2,522,337)</u>	<u>-</u>
Total non-depreciable assets	<u>4,734,850</u>	<u>18,688</u>	<u>(2,522,337)</u>	<u>2,231,201</u>
Depreciable assets:				
Buildings and improvements	20,145,493	78,481	-	20,223,974
Furniture, fixtures and equipment	3,612,545	2,537,971	(16,104)	6,134,412
Vehicles	3,353,951	16,000	(130,673)	3,239,278
Infrastructure:				
Streets	<u>15,791,408</u>	<u>-</u>	<u>-</u>	<u>15,791,408</u>
Total depreciable assets	<u>42,903,397</u>	<u>2,632,452</u>	<u>(146,777)</u>	<u>45,389,072</u>
Less accumulated depreciation:				
Buildings and improvements	(12,621,655)	(484,715)	-	(13,106,370)
Furniture, fixtures and equipment	(2,663,439)	(260,354)	15,809	(2,907,984)
Vehicles	(2,378,245)	(115,658)	122,410	(2,371,493)
Infrastructure:				
Streets	<u>(11,254,635)</u>	<u>(509,086)</u>	<u>-</u>	<u>(11,763,721)</u>
Total accumulated depreciation	<u>(28,917,974)</u>	<u>(1,369,813)</u>	<u>138,219</u>	<u>(30,149,568)</u>
Total depreciable assets, net	<u>13,985,423</u>	<u>1,262,639</u>	<u>(8,558)</u>	<u>15,239,504</u>
Governmental activities capital assets, net	\$ <u>18,720,273</u>	\$ <u>1,281,327</u>	\$ <u>(2,530,895)</u>	\$ <u>17,470,705</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 130,945
Security of persons and property	347,254
Public health and welfare	2,925
Leisure time activities	327,375
Community development	377
Basic utility services	5,425
Transportation	<u>555,512</u>
Total	\$ <u>1,369,813</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 9: Capital Assets (continued)

	Balance 12/31/15	Additions	Disposals	Balance 12/31/16
Business-type activities:				
Non-depreciable assets:				
Land	\$ 99,200	\$ -	\$ -	\$ 99,200
Depreciable assets:				
Buildings and improvements	4,658,886	159,653	-	4,818,539
Furniture, fixtures and equipment	7,617,813	84,734	-	7,702,547
Vehicles	382,799	60,397	(81,751)	361,445
Infrastructure:				
Sewers	6,851,320	-	-	6,851,320
Total depreciable assets	19,510,818	304,784	(81,751)	19,733,851
Less accumulated depreciation:				
Buildings and improvements	(3,277,598)	(132,503)	-	(3,410,101)
Furniture, fixtures and equipment	(6,677,888)	(44,894)	-	(6,722,782)
Vehicles	(334,861)	(3,749)	73,576	(265,034)
Infrastructure:				
Sewers	(2,404,831)	(134,786)	-	(2,539,617)
Total accumulated depreciation	(12,695,178)	(315,932)	73,576	(12,937,534)
Total depreciable assets, net	6,815,640	(11,148)	(8,175)	6,796,317
Business-type capital assets, net	\$ 6,914,840	\$ (11,148)	\$ (8,175)	\$ 6,895,517

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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, 2016 was as follows:

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/16</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds:					
Refunded jail facilities improvement, due through 2018	\$ 50,000	\$ -	\$ (15,000)	\$ 35,000	\$ 15,000
Various purpose bonds, due through 2018	<u>462,800</u>	<u>-</u>	<u>(146,900)</u>	<u>315,900</u>	<u>152,600</u>
Total general obligation bonds	<u>512,800</u>	<u>-</u>	<u>(161,900)</u>	<u>350,900</u>	<u>167,600</u>
Ohio Public Works Commission loans:					
Sunset Drive improvements, due through 2030	212,756	-	(12,436)	200,320	14,838
Columbia Drive improvements, due through 2033	<u>484,829</u>	<u>-</u>	<u>(26,935)</u>	<u>457,894</u>	<u>26,935</u>
Total Ohio Public Works Commission loans	<u>697,585</u>	<u>-</u>	<u>(39,371)</u>	<u>658,214</u>	<u>41,773</u>
Other long-term obligations:					
Claims payable	506,386	1,456,928	(1,547,792)	415,522	211,748
Capital leases payable	126,723	-	(30,672)	96,051	31,744
Accrued compensated absences	1,751,537	796,720	(717,883)	1,830,374	746,393
Net pension liability	<u>15,291,144</u>	<u>3,247,316</u>	<u>-</u>	<u>18,538,460</u>	<u>-</u>
Total other long-term obligations	<u>17,675,790</u>	<u>5,500,964</u>	<u>(2,296,347)</u>	<u>20,880,407</u>	<u>989,885</u>
Total governmental activities long-term liabilities	<u>\$ 18,886,175</u>	<u>\$ 5,500,964</u>	<u>\$ (2,497,618)</u>	<u>\$ 21,889,521</u>	<u>\$ 1,199,258</u>
Business-type activities:					
General obligation bonds:					
Various purpose bonds, due through 2018	\$ 337,200	\$ -	\$ (108,100)	\$ 229,100	\$ 112,400
Other long-term obligations:					
Capital leases payable	4,014	-	(1,068)	2,946	1,129
Accrued compensated absences	310,474	137,275	(128,615)	319,134	130,880
Net pension liability	<u>1,340,595</u>	<u>281,646</u>	<u>-</u>	<u>1,622,241</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 1,992,283</u>	<u>\$ 418,921</u>	<u>\$ (237,783)</u>	<u>\$ 2,173,421</u>	<u>\$ 244,409</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 10: Long-Term Debt (continued)

B. Bonded Debt and Other Long-Term Obligations (continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2016 are as follows:

Year	General Obligation Bonds				OPWC Loans
	Governmental		Business-Type		Governmental
	Principal	Interest	Principal	Interest	Principal
2017	\$ 167,600	\$ 12,661	\$ 112,400	\$ 8,164	\$ 41,773
2018	183,300	6,720	116,700	4,230	41,773
2019	-	-	-	-	41,773
2020	-	-	-	-	41,773
2021	-	-	-	-	41,773
2022-2026	-	-	-	-	208,868
2027-2031	-	-	-	-	186,710
2032-2033	-	-	-	-	53,771
Totals	\$ <u>350,900</u>	\$ <u>19,381</u>	\$ <u>229,100</u>	\$ <u>12,394</u>	\$ <u>658,214</u>

General obligation bonds and notes 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 \$22,676,012 at December 31, 2016.

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, 2016, there was no defeased debt outstanding.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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	\$ 136,254	\$ -
Equipment	22,143	5,535
Less: accumulated depreciation	<u>(20,183)</u>	<u>(2,491)</u>
Total	<u>\$ 138,214</u>	<u>\$ 3,044</u>

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>
2017	\$ 34,688	\$ 1,272
2018	34,688	1,272
2019	<u>32,156</u>	<u>636</u>
Total minimum lease payments	101,532	3,180
Less: Amount representing interest	<u>(5,481)</u>	<u>(234)</u>
Present value of minimum lease payments	<u>\$ 96,051</u>	<u>\$ 2,946</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.

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, 2016. 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 12: Compensated Absences (continued)

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.

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, 2016

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, 2016

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 plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% 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 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 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 (the defined benefit element) and a defined contribution element. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional 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

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 Traditional plan.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

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

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 provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0 %</u>
Total Employer	<u>14.0 %</u>
Employee	10.0 %

In 2016, the City's contractually required contribution, net of post-employment health care benefits, was \$495,367 for 2016. Of this amount, \$53,997 is reported as accrued wages and benefits at December 31, 2016.

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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

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

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

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

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

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

	<u>Police</u>	<u>Firefighter</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %
2016 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, 2016 through December 31, 2016	12.25 %	12.25 %

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

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

In 2016, the City's contractually required contribution, net of postemployment health care benefits was \$944,338 for 2016. Of this amount, \$103,195 is reported as accrued wages and benefits at December 31, 2016.

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

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability (asset) prior measurement date	0.040529%	0.046508%	0.226690%	
Proportion of the net pension liability (asset) current measurement date	<u>0.032857%</u>	<u>0.037060%</u>	<u>0.224923%</u>	
Change in Proportionate Share	(0.007672%)	(0.009448%)	(0.001767%)	
Proportionate share of the net pension liability (asset)	\$ 5,691,248	\$ (18,034)	\$ 14,469,453	\$ 20,142,667
Pension expense	\$ 513,400	\$ 9,752	\$ 1,955,563	\$ 2,478,715

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflow of resources				
City contributions subsequent to the measurement date	\$ 481,441	\$ 13,926	\$ 944,338	\$ 1,439,705
Differences in employer contributions and change in proportionate share	-	2,040	-	2,040
Net difference between projected and actual earnings on pension plan investments	<u>1,672,873</u>	<u>7,786</u>	<u>2,355,072</u>	<u>4,035,731</u>
Total deferred outflow of resources	\$ <u>2,154,314</u>	\$ <u>23,752</u>	\$ <u>3,299,410</u>	\$ <u>5,477,476</u>

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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)

	OPERS Traditional	OPERS Combined	OP&F	Total
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	\$ 620,432	\$ -	\$ 75,493	\$ 695,925
Difference between expected and actual experience	<u>109,966</u>	<u>8,229</u>	<u>40,630</u>	<u>158,825</u>
Total deferred inflow of resources	\$ <u>730,398</u>	\$ <u>8,229</u>	\$ <u>116,123</u>	\$ <u>854,750</u>

The \$1,439,705 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional	OPERS Combined	OP&F	Total
Fiscal Year Ending December 31:				
2017	\$ 79,603	\$ 1,204	\$ 597,781	\$ 678,588
2018	106,352	1,204	597,781	705,337
2019	377,946	1,204	597,781	976,931
2020	378,574	987	472,233	851,794
2021	-	(797)	(22,374)	(23,171)
2022-2025	-	(2,205)	(4,253)	(6,458)
	\$ <u>942,475</u>	\$ <u>1,597</u>	\$ <u>2,238,949</u>	\$ <u>3,183,021</u>

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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

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

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
	5-year period ended December 31, 2010	5-year period ended December 31, 2010
	Individual Entry Age	Individual Entry Age
Experience Study		
Actuarial Cost Method		
Actuarial Assumptions:		
Investment Rate of Return	8%	8%
Wage Inflation	3.75%	3.75%
Future Salary Increases, including 3.75% inflation	4.25 to 10.05%	4.25 to 8.05%
COLA	3% Simple	3% Simple

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

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

OPERS manages investments in four investment portfolios: the defined benefits portfolio, the health care portfolio, the 115 health care trust portfolio and the defined contribution portfolio. The defined benefit portfolio includes the investment assets of the Traditional plan, the defined benefit component of the Combined plan, the annuitized accounts of the Member-Directed plan and the VEBA Trust. Within the defined benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return, net of investment expenses, is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the defined benefit portfolio is 0.40% for 2015.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The allocation of investment assets with the defined benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

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

Discount Rate The discount rate used to measure the total pension liability was 8%. 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 8%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
City’s proportionate share of the net pension liability – Traditional	\$ 9,067,546	\$ 5,691,248	\$ 2,843,445
City’s proportionate share of the net pension asset – Combined	\$ (371)	\$ (18,034)	\$ (32,242)

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

Changes Between Measurement Date and Report Date In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

F. Actuarial Assumptions – OP&F

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

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 13: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income	20.00	1.62
Global Inflation Protected	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	120.00 %	

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 (7.25%)	Discount Rate (8.25%)	1% Increase (9.25%)
City’s proportionate share of the net pension liability	\$ 19,083,272	\$ 14,469,453	\$ 10,561,097

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 14: Post-Employment Benefits

A. *Ohio Public Employees Retirement System*

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed plan – a defined contribution plan; and the Combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, 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 and Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional 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 2015 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 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 is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 14: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

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 plan and Combined plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% 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 into the RMA for participants in the Member-Directed plan for 2016 was 4.0%.

The City's contributions for health care for the years ended December 31, 2016, 2015, and 2014 were \$82,860, \$83,337, and \$102,765, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 89.1% 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 health care 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% 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% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 14: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F allocated to the health care plan for police and fire for the years ending December 31, 2016, 2015, and 2014 were \$11,435 and \$11,062, \$11,917 and \$11,120, and \$11,511 and \$11,093, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 88.4% for police and 89.6% 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 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 15: Risk Management (continued)

A. Property and Liability (continued)

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 2016, the City paid a total of \$205,799 in premiums from the general and sewer treatment funds. Financial information can be obtained by contacting the fiscal agent, at the City Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

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 \$267,272 reported in the workers compensation fund (an internal service fund) at December 31, 2016 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 15: Risk Management (continued)

B. Workers' Compensation Program (continued)

Changes in the fund's claims liability amount in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Unpaid claims, beginning of year	\$ 382,694	\$ 275,130
Incurred claims and changes in estimate	23,310	176,214
Claims payments	<u>(138,732)</u>	<u>(68,650)</u>
Unpaid claims, end of year	<u>\$ 267,272</u>	<u>\$ 382,694</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 2016, self-insurance was in effect for claims up to \$100,000 per covered individual. Any claims exceeding this threshold are covered by stop-loss.

The claims liability of \$148,250 as estimated by the third party administrator and reported in the hospitalization reserve fund (an internal service fund) at December 31, 2016 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 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Unpaid claims, beginning of year	\$ 123,692	\$ 201,239
Incurred claims and changes in estimate	1,433,618	1,677,806
Claims payments	<u>(1,409,060)</u>	<u>(1,755,353)</u>
Unpaid claims, end of year	<u>\$ 148,250</u>	<u>\$ 123,692</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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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 134 members in 200 communities in 13 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 nine-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 Bedford Heights did not make any payments to NOPEC during 2016. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

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 2016, 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 17: Jointly Governed Organizations (continued)

C. Southeast Regional Council of Governments (continued)

1. Southeast Emergency Communication Center (continued)

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. From January 1, 2016 through February 29, 2016, the City contributed \$81,066 to the SECC.

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. From March 1, 2016 through December 31, 2016, the City contributed \$395,080 to the SECC. 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.

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 2016, 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 16 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 17: Jointly Governed Organizations (continued)

D. First Suburbs Consortium of Northeast Ohio Council of Governments (continued)

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 2016, 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	\$ 31,678
Fire Levy	6,467
Issue 24 Levy	6,059
Capital improvements	69,208
Nonmajor governmental funds	<u>4,928</u>
Total other significant commitments	<u>\$ 118,340</u>

Note 19: Tax Abatement Disclosures

As of December 31, 2016, 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, 2016, the City abated property taxes totaling \$10,215 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 Three Years (1)

	<u>2015</u>		<u>2014</u>		<u>2013</u>
City's proportion of the net pension liability	0.032857%		0.040529%		0.040529%
City's proportionate share of the net pension liability	\$ 5,691,248	\$	4,888,250	\$	4,777,841
City's covered payroll	\$ 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	142.90%		98.49%		95.08%
Plan fiduciary net position as a percentage of the total pension liability	81.08%		86.45%		86.36%

(1) Information prior to 2013 is not available.

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 Three Years (1)

	<u>2015</u>		<u>2014</u>		<u>2013</u>
City's proportion of the net pension asset	0.037060%		0.046508%		0.046508%
City's proportionate share of the net pension asset	\$ 18,034	\$	17,907	\$	4,880
City's covered payroll	\$ 132,071	\$	164,580	\$	166,641
City's proportionate share of the net pension asset as a percentage of its covered payroll	13.65%		10.88%		2.93%
Plan fiduciary net position as a percentage of the total pension asset	116.90%		114.83%		104.56%

(1) Information prior to 2013 is not available.

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 Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.224923%	0.226690%	0.226690%
City's proportionate share of the net pension liability	\$ 14,469,453	\$ 11,743,487	\$ 11,040,514
City's covered payroll	\$ 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	318.64%	259.44%	250.31%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	71.71%	73.00%

(1) Information prior to 2013 is not available.

City of Bedford Heights, Ohio

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

Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 481,441	\$ 477,932	\$ 595,574	\$ 653,284	\$ 499,072
Contributions in relation to the contractually-required contribution	<u>(481,441)</u>	<u>(477,932)</u>	<u>(595,574)</u>	<u>(653,284)</u>	<u>(499,072)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,012,007	\$ 3,982,755	\$ 4,963,119	\$ 5,025,260	\$ 4,990,719
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 531,964	\$ 472,079	\$ 474,594	\$ 431,452	\$ 501,861
Contributions in relation to the contractually-required contribution	<u>(531,964)</u>	<u>(472,079)</u>	<u>(474,594)</u>	<u>(431,452)</u>	<u>(501,861)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 5,319,640	\$ 5,245,322	\$ 5,583,456	\$ 6,163,607	\$ 6,010,309
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

City of Bedford Heights, Ohio

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

Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 13,926	\$ 15,849	\$ 19,750	\$ 21,663	\$ 16,550
Contributions in relation to the contractually-required contribution	<u>(13,926)</u>	<u>(15,849)</u>	<u>(19,750)</u>	<u>(21,663)</u>	<u>(16,550)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 116,050	\$ 132,071	\$ 164,580	\$ 166,641	\$ 165,495
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 17,640	\$ 15,654	\$ 15,738	\$ 14,307	\$ 16,642
Contributions in relation to the contractually-required contribution	<u>(17,640)</u>	<u>(15,654)</u>	<u>(15,738)</u>	<u>(14,307)</u>	<u>(16,642)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 176,403	\$ 173,938	\$ 185,151	\$ 204,389	\$ 199,306
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

City of Bedford Heights, Ohio

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

Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 944,338	\$ 962,413	\$ 959,297	\$ 799,621	\$ 646,326
Contributions in relation to the contractually-required contribution	<u>(944,338)</u>	<u>(962,413)</u>	<u>(959,297)</u>	<u>(799,621)</u>	<u>(646,326)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,450,366	\$ 4,541,021	\$ 4,526,411	\$ 4,410,703	\$ 4,323,601
Contributions as a percentage of covered payroll	21.22%	21.19%	21.19%	18.13%	14.95%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 645,138	\$ 693,266	\$ 691,965	\$ 673,168	\$ 638,398
Contributions in relation to the contractually-required contribution	<u>(645,138)</u>	<u>(693,266)</u>	<u>(691,965)</u>	<u>(673,168)</u>	<u>(638,398)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,306,682	\$ 4,665,546	\$ 4,674,714	\$ 4,547,675	\$ 4,315,643
Contributions as a percentage of covered payroll	14.98%	14.86%	14.80%	14.80%	14.79%



Dave Yost • Auditor of State

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

City of 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 6, 2017.

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.

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

Dave Yost
Auditor of State
Columbus, Ohio

December 6, 2017



Dave Yost • Auditor of State

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
DECEMBER 26, 2017