



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF SOUTH EUCLID
CUYAHOGA COUNTY
DECEMBER 31, 2017**

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CITY OF SOUTH EUCLID
CUYAHOGA COUNTY
DECEMBER 31, 2017

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

City of South Euclid
Cuyahoga County
1349 South Green Road
South Euclid, Ohio 44121

To the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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, each major fund, and the aggregate remaining fund information of the City of South Euclid, Cuyahoga County, Ohio, as of December 31, 2017, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Safety Forces 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 July 24, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

July 24, 2019

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

The discussion and analysis of the City of South Euclid's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider information presented here in conjunction with the additional information contained in the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Financial highlights for 2017 are as follows:

- During 2017, the City of South Euclid saw an increase in property taxes. This increase can be attributed to the increased revenues from the new safety forces levy. This is the first full year of collections on the safety levy. This increase is expected to bring the City approximately \$2 million per year for three years and will be used for safety forces including police, fire, emergency medical services and dispatch. The safety forces levy monies will be accounted for in the safety forces levy special revenue fund.
- The increase in assets and deferred outflows of the City coupled with the decrease in liabilities and deferred inflows at December 31, 2017 allowed for the City to see an increase in net position from 2016 to 2017. This is due to increases in cash and cash equivalents as revenues outpaced expenses.
- The City made capital purchases for building improvements, equipment and vehicles as well as infrastructure improvements as they continue to replace aging assets.
- As of December 31, 2017, the City has nine lots on Greenvale which are being held for resale. Assets held for resale represent land purchased by the City which will be sold for development purposes and homes purchased and repaired to be resold under the Community Development in-fill housing project.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of South Euclid's basic financial statements. These statements are organized so that the reader can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of South Euclid, Ohio
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Government-wide financial statements – Reporting the City of South Euclid as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information, excluding fiduciary funds, on all the City of South Euclid's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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, non-financial factors such as the City's tax base, change in tax laws and the condition of capital assets should also be considered. Both the Statement of Net Position and the Statement of Activities use the accrual basis of accounting that is similar to the accounting method 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.

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

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

Reporting the City of South Euclid's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 9. Fund financial reports provide detailed information about the City's major funds. The City of South Euclid has established many funds that account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. The City's major funds are the general fund, the safety forces levy special revenue fund and the flood control and land acquisition capital projects funds.

Governmental Funds

Most of the City's activities are reported in the governmental funds which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Both the governmental fund balance sheet and the governmental 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.

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

Government-wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the City's net position and the changes in that position. The change in position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. As can be seen from the increase in net position, the overall financial position has improved. This increase can be attributed to the increase in cash and cash equivalents as the City continues to pay down debt and build cash reserves.

The City of South Euclid as a Whole

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

Table 1
Net Position

	Governmental Activities		
	2017	2016	Change
Assets			
Current and Other Assets	\$29,320,928	\$27,926,913	\$1,394,015
Capital Assets, Net	45,792,827	46,649,644	(856,817)
Total Assets	75,113,755	74,576,557	537,198
Deferred Outflows of Resources			
Pension	5,631,317	5,971,248	(339,931)
Deferred Charge on Refunding	10,584	22,130	(11,546)
Total Deferred Outflows of Resources	5,641,901	5,993,378	(351,477)
Liabilities			
Current Liabilities	2,729,164	1,757,649	(971,515)
Long-Term Liabilities:			
Due Within One Year	1,627,527	1,618,650	(8,877)
Due in More Than One Year			
Net Pension Liability	23,924,312	22,410,451	(1,513,861)
Other Amounts	21,116,629	23,631,762	2,515,133
Total Liabilities	49,397,632	49,418,512	20,880
Deferred Inflows of Resources			
Property Taxes	5,494,807	5,529,035	34,228
Payments in Lieu of Taxes	384,208	380,000	(4,208)
Pension	115,779	179,824	64,045
Total Deferred Inflows of Resources	\$5,994,794	\$6,088,859	\$94,065

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

Table 1
Net Position (continued)

	Governmental Activities		
	2017	2016	Change
Net Position			
Net Investment in Capital Assets	\$27,588,291	\$27,076,408	\$511,883
Restricted for:			
Capital Projects	5,474,024	5,812,275	(338,251)
Law Enforcement	1,030,581	842,430	188,151
Street Maintenance	833,167	767,660	65,507
Street Lighting	559,826	570,559	(10,733)
Sewer Maintenance	486,963	407,496	79,467
Community Development	21,934	21,934	0
Other Purposes	657,098	493,625	163,473
Unrestricted (Deficit)	<u>(11,288,654)</u>	<u>(10,929,823)</u>	<u>(358,831)</u>
<i>Total Net Position</i>	<u>\$25,363,230</u>	<u>\$25,062,564</u>	<u>\$300,666</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement 27." For reasons discussed 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.

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

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
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

City of South Euclid, Ohio
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and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

Total net position increased from 2016 to 2017 due to increases in current and other assets coupled with decreases in current liabilities. The decrease in capital assets was primarily due to depreciation exceeding building improvements, purchases of additional vehicles and equipment and continuing capital projects.

Total liabilities decreased due to current liabilities such as accounts payable, intergovernmental payable, retainage payable and vacation benefits payable decreasing as well as the continued pay down of long-term debt.

Table 2 shows the changes in net position for the years ended December 31, 2017 and 2016 and corresponds to the Statement of Activities on page 15.

City of South Euclid, Ohio
Management's Discussion and Analysis
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Table 2
Changes in Net Position

	Governmental Activities		
	2017	2016	Change
Revenues			
Program Revenues:			
Charges for Services and Operating Assessments	\$5,071,187	\$5,232,461	(\$161,274)
Operating Grants	999,674	911,463	88,211
Capital Grants	857,177	1,876,179	(1,019,002)
Total Program Revenues	6,928,038	8,020,103	(1,092,065)
General Revenues:			
Property Taxes	6,220,497	5,545,484	675,013
Income Taxes	10,437,452	9,188,882	1,248,570
Grants and Entitlements	1,643,832	1,193,454	450,378
Payments in Lieu of Taxes	340,840	380,081	(39,241)
Unrestricted Contributions	17,027	0	17,027
Investment Earnings	70,333	26,575	43,758
Gain on Sale of Capital Assets	6,017	11,109	(5,092)
Gain on Sale of Assets Held for Resale	684,813	0	684,813
Miscellaneous	424,148	161,408	262,740
Total General Revenues	19,844,959	16,506,993	3,337,966
Total Revenues	26,772,997	24,527,096	2,245,901
Program Expenses			
General Government:			
Legislative and Executive	2,808,446	2,665,801	(142,645)
Judicial System	641,517	682,164	40,647
Security of Persons and Property:			
Police	6,492,596	6,203,139	(289,457)
Fire	5,104,724	5,335,610	230,886
Public Health Services	130,813	126,445	(4,368)
Leisure Time Activities	348,606	391,054	42,448
Community Development	1,468,739	232,881	(1,235,858)
Building Department	1,132,397	850,023	(282,374)
Transportation	4,263,777	4,132,164	(131,613)
Basic Utility Services	3,046,669	4,389,906	1,343,237
Swimming Pools	281,629	280,572	(1,057)
Interest and Fiscal Charges	752,418	795,780	43,362
Total Program Expenses	26,472,331	26,085,539	(386,792)
Change in Net Position	300,666	(1,558,443)	1,859,109
Net Position Beginning of Year	25,062,564	26,621,007	(\$1,558,443)
Net Position End of Year	\$25,363,230	\$25,062,564	\$300,666

Program revenues decreased in 2017 mainly due to a decrease in capital grants as fewer capital projects were underway. General revenues increased mainly due to increases in property and income taxes as well as additional grant and entitlement and miscellaneous revenues being received. Total program expenses increased due to increased costs of providing legislative and executive, fire, transportation and basic utility services. In addition, based on current market conditions, the City did a revaluation of their assets held for resale. The revaluation resulted in a decrease of assets held for resale.

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

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate was 1.5 percent from 1984 through 2005. In August 2005 the voters of South Euclid passed an income tax rate increase to 2.00 percent. The new rate of 2.00 percent became effective January 1, 2006. Residents of the City who work in another community receive a 0.75 percent credit on income earned outside the City and paid to another municipality. The City experienced an increase in income tax collections in 2017. The City remains committed to collecting all taxes due to it and during 2018 working in conjunction with the Regional Income Tax Agency to identify and assess individuals who were delinquent in filing their income tax returns. Property tax revenues increased in 2017 and remained the City's second largest source of revenues. Revenues from grants and entitlements represented approximately nine percent of total general revenues. These funds are received from the State of Ohio in the form of local government assistance and estate taxes.

The City of South Euclid has committed to devote major resources in its quest to renovate the City's aging infrastructure system, in particular the sewer system. As a part of this commitment, beginning in 2001, each property in the City is annually assessed \$231 per sewer connection. This assessment generates approximately \$333,000 devoted to ongoing sewer maintenance and \$2,000,000 designated for flood control projects.

The City continued its commitment to providing quality roads and sidewalks to our residents. The expiring 3-mill property tax levy was reduced to 2.5-mills and approved by the voters in May 2010. Using the proceeds from that 2.5-mill property tax levy, the City continues to reconstruct/resurface roads.

In order to maintain the safety and environment the residents deserve and expect, the City had to replace some of the antiquated equipment in the Service Department.

The City's Funds

Information about the City's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. Overall, governmental funds had an increase in total revenues and decreases in expenditures from 2016. Revenues increased due to increases in property and income taxes, special assessments, interest and rental revenues collected. Expenditures decreased due to fewer capital expenditures being made as well as basic utility services and transportation expenditures during 2017. The general fund experienced increases in revenues from 2016 in income taxes, intergovernmental, interest, rentals and charges for services. The City experienced increases in general fund expenditures compared to 2016 levels. The increases in expenditures can be attributed to a general increase in operating expenditures. General fund revenues exceeded expenditures, resulting in the general fund balance increasing over 2016.

During 2017, the safety forces levy special revenue fund balance increased as a result of revenues outpacing police and fire expenditures. The flood control capital projects fund balance increased as a result of revenues exceeding expenditures as intergovernmental revenues increased and capital projects decreased during the year. The land acquisition capital projects fund balance decreased as expenditures outpaced revenues.

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. Council is provided with a detailed line item budget for all departments and after a discussion at Finance Committee meetings, which are open to the public, the budget is adopted at an object

City of South Euclid, Ohio
Management's Discussion and Analysis
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level by City Council at a regularly held council meeting. Council must approve any revisions in the budget that alter the object level or the total appropriations for any department or fund.

During the course of 2017, the City amended its general fund budget numerous times. The actual revenue amount exceeded the final budget. Final appropriations exceeded actual expenditures. This variance was due primarily to the conservative budgeting techniques of the City and a concerted effort to reduce spending at the end of the year.

The City's ending unobligated budgetary fund balance was higher than the final budget amount.

Capital Assets and Long-Term Obligations

Capital Assets

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

Table 3
Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities	
	2017	2016
Land	\$517,278	\$522,606
Construction in Progress	883,620	0
Buildings and Improvements	1,124,145	1,563,569
Equipment	1,093,080	1,162,824
Vehicles	674,372	883,126
Infrastructure		
Streets	16,108,273	16,647,057
Bridges, Sewers and Culverts	25,297,548	25,773,877
Traffic Signals	94,511	96,585
Total Capital Assets	\$45,792,827	\$46,649,644

The decrease in capital assets was primarily due to an additional year of depreciation coupled with deletions of vehicles exceeding additions of buildings and improvements, additional vehicles and equipment and continuing capital. Construction on Grosvenor road infrastructure began during the year.

In 2001, the City Council approved the implementation of fees for Emergency Medical Services (EMS) transports beginning in 2002. The first \$225,000 collected annually is designated for the replacement of safety forces vehicles. This will allow the fire and police departments to follow their scheduled replacement timetable without relying on traditional revenue sources.

The City's garage staff works to maintain the fleet of vehicles at a high level of repair to extend their longevity. When replacement is required, City vehicles continue to be purchased or leased from the general capital improvement fund, which receives funding from the general fund.

The City Engineer maintains a comprehensive listing of all the streets, sewer and water lines and bridges and culverts within the City. Each spring, this inventory is updated with current conditions and recommendations made for repair or replacement. As mentioned before, the City has been very aggressive in pursuing funding to assist in the financing of infrastructure projects. For more information about the City's capital assets, see Note 11 to the basic financial statements.

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

Long-Term Obligations

Table 4 summarizes the long-term obligations outstanding.

Table 4
Outstanding Long-Term Obligations at Year End

	Governmental Activities	
	2017	2016
General Obligation Bonds	\$15,246,307	\$16,373,188
Special Obligation Bonds	1,560,000	1,665,000
OPWC Loans	2,378,151	2,579,367
OWDA Loans	1,087,677	1,190,182
OAQDA Loans	516,901	566,294
Bond Anticipation Note	700,976	1,602,960
Net Pension Liability	23,924,312	22,410,451
Police and Fire Pension Liability	239,225	248,318
Capital Lease	91,466	130,169
Compensated Absences	923,453	894,934
Total	\$46,668,468	\$47,660,863

The real estate acquisition and urban redevelopment general obligation bonds with the original issuance amount of \$14,130,000 were issued for construction projects throughout the City and will be repaid with revenues from the land acquisition capital projects fund.

The housing development special obligation bonds with the original issuance amount of \$1,840,000 were issued for real estate purchases for the clearing and improving of the site. This bond will be repaid with revenues from the land acquisition capital projects fund.

The various purpose improvement bonds with the original issuance amount of \$5,430,000 will be paid with revenues from the road improvement and flood control capital projects funds.

The OPWC loans represent nine, twenty-year zero-interest loans. The OPWC loan's repayment source is service assessments being collected in the flood control fund.

The City of South Euclid's overall legal debt margin is \$31,111,080 with an unvoted debt margin of \$12,890,345 on December 31, 2017. For more information about the City's long-term obligations, see Note 13 to the basic financial statements.

City of South Euclid, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
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Current Financial Related Activities

The City of South Euclid has remained strong despite the challenging environment of the State and national economy. The administration has provided consistent fiscal management during this time, holding general operating expenses in check while maintaining City services at a high level in 2017. With decreasing revenues from Federal and State sources and increasing expenses, the City will continue to make the necessary adjustments in its day to day operations to meet and overcome any future challenges. Expenses can only be reduced so much without jeopardizing the safety, health and welfare of the residents. The administration will continue to monitor the revenues and expenses and make appropriate adjustments as needed. The administration continues toward its goal of keeping all residents and other interested parties fully informed as to the financial status of the City of South Euclid.

Contacting the City of South Euclid's Financial Management

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 the money it receives. If you have questions about this report or need additional financial information, contact Brenda Wendt, Finance Director, at the City of South Euclid, 1349 South Green Road, South Euclid, Ohio 44121-3985, (216) 381-0400, or e-mail to Finance@seuclid.com.

Basic Financial Statements

City of South Euclid, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,408,782
Cash and Cash Equivalents In Segregated Accounts	105,888
Accounts Receivable	122,967
Accrued Interest Receivable	6,261
Intergovernmental Receivable	1,125,915
Prepaid Items	103,048
Materials and Supplies Inventory	222,627
Income Taxes Receivable	5,518,273
Property Taxes Receivable	6,254,719
Special Assessments Receivable	3,777,940
Payments in Lieu of Taxes Receivable	384,208
Assets Held for Resale	62,800
Economic Development Properties	1,227,500
Nondepreciable Capital Assets	1,400,898
Depreciable Capital Assets	44,391,929
	Total Assets
	75,113,755
Deferred Outflows of Resources	
Pension	5,631,317
Deferred Charge on Refunding	10,584
	Total Deferred Outflows of Resources
	5,641,901
Liabilities	
Accounts Payable	212,991
Accrued Wages	375,432
Contracts Payable	240,969
Intergovernmental Payable	223,678
Retainage Payable	32,094
Accrued Interest Payable	91,625
Vacation Benefits Payable	651,119
Notes Payable	901,256
Long-Term Liabilities:	
Due Within One Year	1,627,527
Due In More Than One Year	
Net Pension Liability (See Note 17)	23,924,312
Other Amounts	21,116,629
	Total Liabilities
	49,397,632
Deferred Inflows of Resources	
Property Taxes	5,494,807
Payments in Lieu of Taxes	384,208
Pension	115,779
	Total Deferred Inflows of Resources
	5,994,794
Net Position	
Net Investment in Capital Assets	27,588,291
Restricted for:	
Capital Projects	5,474,024
Law Enforcement	1,030,581
Street Maintenance	833,167
Street Lighting	559,826
Sewer Maintenance	486,963
Community Development	21,934
Other Purposes	657,098
Unrestricted (Deficit)	(11,288,654)
	Total Net Position
	\$25,363,230

See accompanying notes to the basic financial statements

City of South Euclid, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Operating Assessments	Operating Grants	Capital Grants	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
General Government:					
Legislative and Executive	\$2,808,446	\$328,381	\$0	\$0	(\$2,480,065)
Judicial System	641,517	82,227	5,090	0	(554,200)
Security of Persons and Property:					
Police	6,492,596	646,395	59,707	0	(5,786,494)
Fire	5,104,724	449,441	58,012	0	(4,597,271)
Public Health Services	130,813	241,866	0	0	111,053
Leisure Time Activities	348,606	38,392	0	0	(310,214)
Community Development	1,468,739	31,457	0	0	(1,437,282)
Building Department	1,132,397	127,196	0	0	(1,005,201)
Transportation	4,263,777	128,358	876,865	111,942	(3,146,612)
Basic Utility Services	3,046,669	2,958,815	0	745,235	657,381
Swimming Pools	281,629	38,659	0	0	(242,970)
Interest and Fiscal Charges	752,418	0	0	0	(752,418)
<i>Total Governmental Activities</i>	<u>\$26,472,331</u>	<u>\$5,071,187</u>	<u>\$999,674</u>	<u>\$857,177</u>	<u>(19,544,293)</u>
General Revenues					
Property Taxes Levied for:					
					3,342,196
					756,909
					2,121,392
					10,437,452
					1,643,832
					340,840
					17,027
					70,333
					6,017
					684,813
					424,148
<i>Total General Revenues</i>					<u>19,844,959</u>
					300,666
					<u>25,062,564</u>
					<u>\$25,363,230</u>

See accompanying notes to the basic financial statements

City of South Euclid, Ohio

*Balance Sheet
Governmental Funds
December 31, 2017*

	General	Safety Forces Levy	Flood Control	Land Acquisition	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$5,714,416	\$10,299	\$1,102,098	\$1,090,798	\$2,491,171	\$10,408,782
Cash and Cash Equivalents						
In Segregated Accounts	105,888	0	0	0	0	105,888
Materials and Supplies Inventory	66,628	0	0	0	155,999	222,627
Accrued Interest Receivable	6,261	0	0	0	0	6,261
Accounts Receivable	118,467	0	0	0	4,500	122,967
Interfund Receivable	700,000	0	0	0	0	700,000
Intergovernmental Receivable	593,958	36,498	0	0	495,459	1,125,915
Prepaid Items	103,048	0	0	0	0	103,048
Income Taxes Receivable	5,518,273	0	0	0	0	5,518,273
Property Taxes Receivable	3,211,056	2,050,774	0	0	992,889	6,254,719
Payments in Lieu of Taxes Receivable	0	0	0	384,208	0	384,208
Assets Held for Resale	0	0	0	62,800	0	62,800
Special Assessments Receivable	151,445	0	2,660,499	0	965,996	3,777,940
Total Assets	\$16,289,440	\$2,097,571	\$3,762,597	\$1,537,806	\$5,106,014	\$28,793,428
Liabilities						
Accounts Payable	\$107,482	\$0	\$0	\$0	\$105,509	\$212,991
Accrued Wages	344,361	0	0	0	31,071	375,432
Contracts Payable	139,465	0	0	0	101,504	240,969
Retainage Payable	0	0	16,704	0	15,390	32,094
Intergovernmental Payable	59,343	133,574	0	0	30,761	223,678
Interfund Payable	0	0	0	700,000	0	700,000
Accrued Interest Payable	0	0	0	14,875	0	14,875
Notes Payable	0	0	0	901,256	0	901,256
Total Liabilities	650,651	133,574	16,704	1,616,131	284,235	2,701,295
Deferred Inflows of Resources						
Property Taxes	2,820,932	1,801,617	0	0	872,258	5,494,807
Payments in Lieu of Taxes	0	0	0	384,208	0	384,208
Unavailable Revenue	5,566,279	285,655	2,660,499	0	1,528,603	10,041,036
Total Deferred Inflows of Resources	8,387,211	2,087,272	2,660,499	384,208	2,400,861	15,920,051
Fund Balances						
Nonspendable	169,676	0	0	0	155,999	325,675
Restricted	0	0	1,085,394	0	2,268,209	3,353,603
Assigned	3,135,646	0	0	0	0	3,135,646
Unassigned (Deficit)	3,946,256	(123,275)	0	(462,533)	(3,290)	3,357,158
Total Fund Balances	7,251,578	(123,275)	1,085,394	(462,533)	2,420,918	10,172,082
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$16,289,440	\$2,097,571	\$3,762,597	\$1,537,806	\$5,106,014	\$28,793,428

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances		\$10,172,082
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		45,792,827
Economic development properties are not financial resources and therefore are not reported in the funds.		1,227,500
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:		
Delinquent Property Taxes	759,912	
Income Taxes	4,556,353	
Special Assessments	3,777,940	
Intergovernmental	946,831	
Total	10,041,036	10,041,036
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(76,750)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(651,119)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	5,631,317	
Deferred Inflows - Pension	(115,779)	
Net Pension Liability	(23,924,312)	
Total	(18,408,774)	(18,408,774)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds Payable	(15,246,307)	
Special Obligation Bonds Payable	(1,560,000)	
OPWC Loans Payable	(2,378,151)	
OWDA Loans Payable	(1,087,677)	
OAQDA Loans Payable	(516,901)	
Bond Anticipation Notes Payable	(700,976)	
Police and Fire Pension Loan Payable	(239,225)	
Capital Leases Payable	(91,466)	
Compensated Absences	(923,453)	
Deferred Charge on Refunding	10,584	
Total	(22,733,572)	(22,733,572)
<i>Net Position of Governmental Activities</i>		\$25,363,230

See accompanying notes to the basic financial statements

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

	General	Safety Forces Levy	Flood Control	Land Acquisition	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$3,291,984	\$1,907,720	\$0	\$0	\$923,611	\$6,123,315
Income Taxes	10,240,842	0	0	0	0	10,240,842
Special Assessments	49,264	0	2,041,396	0	786,490	2,877,150
Intergovernmental	1,628,763	73,467	0	0	1,745,301	3,447,531
Interest	70,333	0	0	0	0	70,333
Fees, Licenses and Permits	711,893	0	0	0	0	711,893
Fines and Forfeitures	676,151	0	0	0	33,574	709,725
Rentals	55,485	0	0	0	1,300	56,785
Charges for Services	484,734	0	0	0	225,000	709,734
Contributions and Donations	17,027	0	0	0	0	17,027
Payments in Lieu of Taxes	0	0	0	340,840	0	340,840
Other	48,863	0	305,500	3,000	66,785	424,148
<i>Total Revenues</i>	<u>17,275,339</u>	<u>1,981,187</u>	<u>2,346,896</u>	<u>343,840</u>	<u>3,782,061</u>	<u>25,729,323</u>
Expenditures						
Current:						
General Government:						
Legislative and Executive	2,526,862	0	0	0	500	2,527,362
Judicial System	637,373	0	0	0	0	637,373
Security of Persons and Property:						
Police	4,780,052	969,288	0	0	223,105	5,972,445
Fire	3,449,340	973,519	0	0	104,099	4,526,958
Public Health Services	130,813	0	0	0	0	130,813
Leisure Time Activities	294,809	0	0	0	0	294,809
Community Development	243,972	0	0	1,537,200	0	1,781,172
Building Department	982,185	0	0	0	0	982,185
Transportation	995,745	0	0	0	821,196	1,816,941
Basic Utility Services	1,330,249	0	0	0	797,739	2,127,988
Swimming Pools	226,463	0	0	0	0	226,463
Capital Outlay	0	0	1,070,282	8,750	1,290,695	2,369,727
Debt Service:						
Principal Retirement	9,093	0	711,454	2,005,000	425,363	3,150,910
Interest and Fiscal Charges	10,458	0	62,482	719,607	48,717	841,264
<i>Total Expenditures</i>	<u>15,617,414</u>	<u>1,942,807</u>	<u>1,844,218</u>	<u>4,270,557</u>	<u>3,711,414</u>	<u>27,386,410</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,657,925</u>	<u>38,380</u>	<u>502,678</u>	<u>(3,926,717)</u>	<u>70,647</u>	<u>(1,657,087)</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Capital Assets	9,969	0	0	0	0	9,969
Excess from Sale of Assets Held for Resale	0	0	0	684,813	0	684,813
Bond Anticipation Note Issued	0	0	0	700,000	0	700,000
Premium on Bond Anticipation Note Issued	0	0	0	3,906	0	3,906
Transfers In	0	0	0	615,550	537,992	1,153,542
Transfers Out	(1,153,542)	0	0	0	0	(1,153,542)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,143,573)</u>	<u>0</u>	<u>0</u>	<u>2,004,269</u>	<u>537,992</u>	<u>1,398,688</u>
<i>Net Change in Fund Balances</i>	514,352	38,380	502,678	(1,922,448)	608,639	(258,399)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>6,737,226</u>	<u>(161,655)</u>	<u>582,716</u>	<u>1,459,915</u>	<u>1,812,279</u>	<u>10,430,481</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$7,251,578</u>	<u>(\$123,275)</u>	<u>\$1,085,394</u>	<u>(\$462,533)</u>	<u>\$2,420,918</u>	<u>\$10,172,082</u>

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds	(\$258,399)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays and land purchased for resale 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 capital outlay exceeded depreciation in the current period	
Capital Asset Additions	1,583,278
Economic Development Properties Addition	758,200
Current Year Depreciation	(1,922,935)
Total	418,543
Governmental funds only report the disposal of capital assets and land bank assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
Economic Development Properties Deletion:	(429,700)
Capital Assets	(517,160)
Total	(946,860)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	97,182
Income Taxes	196,610
Intergovernmental	53,152
Special Assessments	5,900
Total	352,844
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	
	1,719,912
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	
	(3,509,659)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
	3,150,910
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:	
Accrued Interest	12,621
Amortization of Premium	87,771
Amortization of Deferred Charge on Refunding	(11,546)
Total	88,846
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	(28,519)
Vacation Benefits	16,954
Total	(11,565)
Other financing sources in the governmental funds increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities.	
Bond Anticipation Notes Issued	(700,000)
Premium on BAN Notes Issued	(3,906)
Total	(703,906)
<i>Change in Net Position of Governmental Activities</i>	\$300,666

See accompanying notes to the basic financial statements:

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$3,367,748	\$3,284,333	\$3,291,984	\$7,651
Income Taxes	10,000,000	10,095,042	10,118,558	23,516
Special Assessments	53,427	49,389	49,504	115
Intergovernmental	1,245,469	1,471,810	1,475,227	3,417
Interest	34,000	64,555	64,705	150
Fees, Licenses and Permits	786,461	711,134	712,791	1,657
Fines and Forfeitures	790,422	793,862	795,711	1,849
Rentals	54,900	54,498	54,625	127
Charges for Services	392,526	423,686	424,673	987
Contributions and Donations	5,000	16,987	17,027	40
Other	56,313	43,903	44,000	97
<i>Total Revenues</i>	<u>16,786,266</u>	<u>17,009,199</u>	<u>17,048,805</u>	<u>39,606</u>
Expenditures				
Current:				
General Government:				
Legislative and Executive	2,953,003	2,972,503	2,687,209	285,294
Judicial System	706,958	726,958	654,159	72,799
Security of Persons and Property:				
Police	5,321,876	5,380,132	4,876,328	503,804
Fire	3,763,897	3,763,899	3,499,730	264,169
Public Health Services	153,016	153,016	138,749	14,267
Leisure Time Activities	304,847	317,692	301,279	16,413
Community Development	433,065	434,064	370,421	63,643
Building Department	885,132	1,101,172	1,032,160	69,012
Transportation	1,149,622	1,420,878	1,318,672	102,206
Basic Utility Services	1,525,711	1,525,711	1,392,020	133,691
<i>Total Expenditures</i>	<u>17,197,127</u>	<u>17,796,025</u>	<u>16,270,727</u>	<u>1,525,298</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(410,861)</u>	<u>(786,826)</u>	<u>778,078</u>	<u>1,564,904</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	9,988	9,941	9,969	28
Advances In	50,000	66,595	66,750	155
Transfers Out	(1,328,667)	(1,472,667)	(1,472,667)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,268,679)</u>	<u>(1,396,131)</u>	<u>(1,395,948)</u>	<u>183</u>
<i>Net Change in Fund Balance</i>	(1,679,540)	(2,182,957)	(617,870)	1,565,087
<i>Fund Balance Beginning of Year</i>	4,649,499	4,649,499	4,649,499	0
Prior Year Encumbrances Appropriated	609,274	609,274	609,274	0
<i>Fund Balance End of Year</i>	<u>\$3,579,233</u>	<u>\$3,075,816</u>	<u>\$4,640,903</u>	<u>\$1,565,087</u>

See accompanying notes to the basic financial statements

City of South Euclid, Ohio
*Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Safety Forces Levy Fund
For the Year Ended December 31, 2017*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,817,677	\$1,907,720	\$1,907,720	\$0
Intergovernmental	69,963	73,429	73,467	38
<i>Total Revenues</i>	1,887,640	1,981,149	1,981,187	38
Expenditures				
Current:				
Security of Persons and Property:				
Police Department:				
Personal Services	925,000	975,000	975,000	0
Contractual Services	10,000	11,000	10,227	773
Total Police Department	935,000	986,000	985,227	773
Fire Department:				
Personal Services	925,000	975,000	975,000	0
Contractual Services	10,000	11,000	10,661	339
Total Fire Department	935,000	986,000	985,661	339
<i>Total Expenditures</i>	1,870,000	1,972,000	1,970,888	1,112
<i>Net Change in Fund Balance</i>	17,640	9,149	10,299	1,150
<i>Fund Balance Beginning of Year</i>	0	0	0	0
<i>Fund Balance End of Year</i>	\$17,640	\$9,149	\$10,299	\$1,150

See accompanying notes to the basic financial statements

City of South Euclid, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,199,134</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$1,199,134</u></u>

See accompanying notes to the basic financial statements

City of South Euclid, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 1 – Description of the City and Reporting Entity

The City of South Euclid (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 November 3, 1953. Legislative authority is vested in a seven-member Council. Council members are elected for staggered four year terms. The Mayor is the chief executive and administrative officer who is elected for a four year term.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of South Euclid this includes the agencies and departments that provide the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection, municipal court and general administrative services. The City's departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a 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 clerk of courts is an appointed City official who has a fiduciary responsibility for the collection and distribution of the court fees and fines.

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 the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. 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 and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The City has no component units.

The City is associated with six organizations: one shared risk pool and three defined as jointly governed organizations. The Northern Ohio Risk Management Association is a shared risk pool. The joint venture is the Community Partnership on Aging. The Community Partnership on Aging, Northeast Ohio Public Energy Council and the First Suburbs Consortium of Northeast Ohio Council of Governments are jointly governed organizations. These organizations are presented in Notes 9 and 19 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of South Euclid 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 more significant of the City's accounting policies are described below.

City of South Euclid, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City's funds are classified as either governmental or fiduciary.

Governmental Funds

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

General Fund - The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of South Euclid and/or the general laws of Ohio.

Safety Forces Levy Fund - The safety forces levy fund accounts for and reports restricted property taxes that are to be used for police and fire services within the City.

City of South Euclid, Ohio
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Flood Control Fund - The flood control fund accounts for and reports restricted special assessments levied to complete projects to correct flooding within the City.

Land Acquisition Fund – The land acquisition fund accounts for and reports restricted debt proceeds that are to be used on capital projects for future economic growth and development.

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

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 do not involve measurement of results of operations. The City’s agency fund accounts for construction deposits, donations, court accounts, employee payroll contributions, fire damage deposits, EDGE accounts and Partnership on Aging accounts.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using 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 the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet.

The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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 and the statement for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding and pension reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 17.

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

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

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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.

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.

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City treasury.

During the year, the City invested in federal home loan bank bonds, federal home loan mortgage corporation notes, negotiable certificates of deposit and money market accounts. Investments are reported at fair value which is based on quoted market prices or current share prices.

Following the Charter and Codified Ordinances of the City as well as Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest is distributed to the general fund and safety forces vehicle capital projects fund. Interest revenue credited to the general fund during 2017 amounted to \$70,333, which includes \$35,486 assigned from other City funds.

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

Economic Development Properties

The City's land bank contains certain nonproductive foreclosure properties which were acquired at no cost to the City. A not-for-profit company, One South Euclid, works in conjunction with the City for these properties. One South Euclid identifies a specific property and with the approval of City Council, purchases for \$1, and makes improvements to the property with the purpose of reselling it as a viable and productive property within the community. The properties held by the City at year end are reported as economic development properties and are valued at fair market value at the time acquired. Since these properties are expected to be donated to One South Euclid and not converted to cash, they are reported in the governmental activities column of the statement of net position, but are not reported in the fund financial statements.

Prepaid Items

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

City of South Euclid, Ohio
Notes to the Basic Financial Statements
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Inventory

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

Assets Held for Resale

Assets held for resale represent land purchased by the City which will be sold for development purposes and homes purchased and repaired to be resold under the Community Development in-fill housing project. As of December 31, 2017, the City has nine lots on Greenvale which are being held for resale. Assets held for resale with a carrying amount of \$232,770 were sold for \$917,583 with an excess of \$684,813 which is reported as an other financing source on the fund financial statements and a gain on the entity wide statement.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column of the statement of net position.

Capital Assets

The City’s only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., 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). Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of seven thousand five hundred dollars. 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.

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	15 - 40 years
Equipment	5 - 20 years
Vehicles	8 years
Streets	30 years
Bridges, Sewers and Culverts	60 years
Traffic Signals	50 years

The City’s infrastructure consists of streets, bridges, sewers, culverts and traffic signals and includes infrastructure acquired prior to December 31, 1980.

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Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year, ending December 31st, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

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 year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after seven years of accumulated service.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes property acquired for resale, unless the use of the proceeds from the sale of those properties is restricted, committed, or assigned.

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.

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

City of South Euclid, Ohio
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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 is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by Council. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State statute. State statute authorizes the finance director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2018's budget and for swimming pools and basic utility services.

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.

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.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for police range and police and fire pensions.

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

Internal Activity

Transfers between governmental activities are eliminated on the government wide financial statements. Internal events that are 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

City of South Euclid, Ohio
Notes to the Basic Financial Statements
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Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Bond/Note Premiums

On the government-wide financial statements, bond/note premiums are deferred and amortized over the term of the bonds/notes using the straight line method. Bond/note premiums are presented as an increase of the face amount of the general obligation bonds payable and notes payable. On fund financial statements, bond/note premiums are received in the year the bonds/notes are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does not allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

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.

Budgetary Process

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

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

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

Note 3 - 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), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues,

City of South Euclid, Ohio
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Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Investments are reported at cost (budget) rather than fair value (GAAP).
3. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but which are reported on the operating statements prepared using GAAP.
4. Budgetary revenues and expenditures of the swimming pools fund are classified to the general fund for GAAP reporting.
5. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
6. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the general fund and safety forces levy special revenue fund are as follows:

	Net Change in Fund Balance	
	General	Safety Forces Levy
GAAP Basis	\$514,352	\$38,380
Net Adjustment for Revenue Accruals	(327,149)	0
Advances In	(66,750)	0
Beginning Fair Value Adjustment for Investments	(11,893)	0
Ending Fair Value Adjustment for Investments	5,680	0
Beginning Unrecorded Cash	3,496	0
Ending Unrecorded Cash	(3,454)	0
Perspective Difference:		
Swimming Pools	12,269	0
Net Adjustment for Expenditure Accruals	190,167	(28,081)
Encumbrances	(934,588)	0
Budget Basis	(\$617,870)	\$10,299

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:

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Fund Balances	General	Safety Forces Levy	Flood Control	Land Acquisition	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepays	\$103,048	\$0	\$0	\$0	\$0	\$103,048
Inventory	66,628	0	0	0	155,999	222,627
<i>Total Nonspendable</i>	169,676	0	0	0	155,999	325,675
<i>Restricted for</i>						
Sewer Rental	0	0	0	0	108,781	108,781
Home Improvement	0	0	0	0	21,934	21,934
Public Safety	0	0	0	0	264,264	264,264
Street Maintenance	0	0	0	0	375,949	375,949
Debt Service Payments	0	0	0	0	6,536	6,536
Street Lighting	0	0	0	0	7,557	7,557
Capital Improvements	0	0	1,085,394	0	1,483,188	2,568,582
<i>Total Restricted</i>	0	0	1,085,394	0	2,268,209	3,353,603
<i>Assigned to</i>						
<i>Purchases on Order:</i>						
Personal Services	51,745	0	0	0	0	51,745
Materials and Supplies	89,772	0	0	0	0	89,772
Contractual Services	708,295	0	0	0	0	708,295
2018 Operations	2,285,834	0	0	0	0	2,285,834
<i>Total Assigned</i>	3,135,646	0	0	0	0	3,135,646
<i>Unassigned (Deficit)</i>	3,946,256	(123,275)	0	(462,533)	(3,290)	3,357,158
<i>Total Fund Balances</i>	\$7,251,578	(\$123,275)	\$1,085,394	(\$462,533)	\$2,420,918	\$10,172,082

Note 5 – Accountability

Fund balances at December 31, 2017 included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Special Revenue Funds:</i>	
Safety Forces Levy	\$123,275
Fire Pension	3,290
<i>Capital Projects Fund:</i>	
Land Acquisition	462,533

The special revenue funds and capital projects fund deficits are caused by the recognition of expenditures on a modified accrual basis of accounting which are greater than the expenditures recognized on a cash basis. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur.

Note 6 - Deposits and Investments

The City is a charter City and has adopted an investment policy through City Ordinance.

The City has chosen to follow State statutes and 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.

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

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

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

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

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$5,533,071 of the City's bank balance of \$6,134,483 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

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

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Two of the City's four financial institutions were in the process of joining OPCS; however, at December 31, 2017, the financial institutions still maintained their own collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

Investments are reported at fair value. As of December 31, 2017, the City had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value - Level One Inputs				
Money Market Mutual Fund	\$2,057,169	Less than one year	AA+	36.26 %
Fair Value - Level Two Inputs				
Federal Home Loan Bank Bonds	1,159,865	Less than five years	AA+	20.45
Federal Home Loan				
Mortgage Corporation Notes	718,293	Less than five years	AA+	12.66
Negotiable Certificates	1,737,866	Less than three years	N/A	30.63
Total Fair Value - Level Two Inputs	<u>3,616,024</u>			
Total Portfolio	<u>\$5,673,193</u>			

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

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within two years from the date of purchase if they have a variable interest rate and five years for investments that have a fixed rate and 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. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The negotiable certificates of deposit are unrated. The City has no investment policy that addresses credit risk.

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer.

Note 7 - Receivables

Receivables at December 31, 2017, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for utility service).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for special assessments and delinquent property taxes are expected to be collected within one year.

At December 31, 2017 the total amount of delinquent special assessments was \$673,209. These delinquencies will be collected in the flood control, sewer rental and street lighting special revenue funds.

Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Property Taxes

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

2017 real property taxes were levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2017 real property taxes are collected in and intended to finance 2016.

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

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

The full tax rate for all City operations for the year ended December 31, 2017, was \$18.85 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2017 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$282,397,410
Other Real Estate	55,999,830
Tangible Personal Property	
Public Utility	<u>10,217,460</u>
Total Assessed Values	<u><u>\$348,614,700</u></u>

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

Income Taxes

The City levies a 2.0 percent income tax on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside of the City. The City offers a credit of 0.75 percent for the first one percent of income tax paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are also required to pay estimated tax quarterly and file a return annually. Taxes collected by RITA in one month are remitted to the City on the first and tenth business days of the following month. Income tax revenue is credited entirely to the general fund.

Payments in Lieu of Taxes

According to State law, the City has established tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

City of South Euclid, Ohio
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Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Homestead and Rollback	\$338,175
Local Government	281,421
Gasoline and Excise Tax	200,025
Permissive Motor Vehicle License Tax	119,700
State and Local Highway Tax	104,343
FEMA	39,144
South Euclid Municipal Court	33,163
State of Ohio	7,676
Cuyahoga County	1,500
Ohio Attorney General	768
Total	<u><u>\$1,125,915</u></u>

Note 8 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees and natural disasters. In October 1987, the City joined together with neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self-insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is paid from the general fund.

There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

Worker's Compensation

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of South Euclid, Ohio
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Note 9 - Shared Risk Pool

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Chagrin Falls, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, University Heights and South Euclid. 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 Cities of Eastlake and Solon whose commencement date is October 1, 1989, and the City of Maple Heights, whose commencement date is October 1, 1993. After the initial three years, each City may extend its term in three-year increments.

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

In 2017, the City of South Euclid paid \$215,638 in premiums from the general fund, which represents 10.36 percent of total NORMA premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

Note 10 – Assets Held for Resale

The City of South Euclid carries assets, such as land, which are held for resale.

As of December 31, 2017 the City has nine lots on Greenvale remaining which are being held for resale.

City of South Euclid, Ohio
Notes to the Basic Financial Statements
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Note 11 - Capital Assets

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

Governmental Activities	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
Capital Assets not being Depreciated:				
Land	\$522,606	\$0	(\$5,328)	\$517,278
Construction in Progress	0	883,620	0	883,620
Total Capital Assets not being Depreciated	<u>522,606</u>	<u>883,620</u>	<u>(5,328)</u>	<u>1,400,898</u>
Capital Assets being Depreciated:				
Buildings and Improvements	7,374,348	51,900	(863,724)	6,562,524
Equipment	2,588,927	67,106	(14,267)	2,641,766
Vehicles	4,186,451	88,608	(290,781)	3,984,278
Infrastructure:				
Streets	30,588,879	434,926	0	31,023,805
Bridges, Sewers and Culverts	31,265,478	57,118	0	31,322,596
Traffic Signals	109,276	0	0	109,276
Total Capital Assets being Depreciated	<u>76,113,359</u>	<u>699,658</u>	<u>(1,168,772)</u>	<u>75,644,245</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(5,810,779)	(91,708)	464,108	(5,438,379)
Equipment	(1,426,103)	(146,991)	24,408	(1,548,686)
Vehicles	(3,303,325)	(175,005)	168,424	(3,309,906)
Infrastructure:				
Streets	(13,941,822)	(973,710)	0	(14,915,532)
Bridges, Sewers and Culverts	(5,491,601)	(533,447)	0	(6,025,048)
Traffic Signals	(12,691)	(2,074)	0	(14,765)
Total Accumulated Depreciation	<u>(29,986,321)</u>	<u>(1,922,935) *</u>	<u>656,940</u>	<u>(31,252,316)</u>
Total Capital Assets being Depreciated, Net	<u>46,127,038</u>	<u>(1,223,277)</u>	<u>(511,832)</u>	<u>44,391,929</u>
Governmental Activities Capital Assets, Net	<u><u>\$46,649,644</u></u>	<u><u>(\$339,657)</u></u>	<u><u>(\$517,160)</u></u>	<u><u>\$45,792,827</u></u>

*Depreciation expense was charged to governmental activities as follows:

General Government:	
Legislative and Executive	\$952
Judicial System	2,992
Security of Persons and Property:	
Police	19,822
Fire	15,542
Leisure Time Activities	6,416
Building Department	3,438
Transportation	1,198,619
Basic Utility Services	631,514
Swimming Pools	43,640
Total Depreciation Expense	<u><u>\$1,922,935</u></u>

City of South Euclid, Ohio
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Note 12 - Note Debt

The City's note activity, including amounts outstanding and interest rates, is as follows:

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017
2017 GO Bond Anticipation Note	\$0	\$900,000	\$0	\$900,000
2017 GO Bond Anticipation Note Premium	0	5,022	3,766	1,256
Total	\$0	\$905,022	\$3,766	\$901,256

In 2017, the City issued \$900,000 in general obligation bond anticipation notes at an interest rate of 2.13 percent. These notes mature on March 21, 2018. The notes were issued for real estate acquisition and urban redevelopment.

The notes are backed by the full faith and credit of the City of South Euclid and mature within one year. The note liability is reflected in the fund which received the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

Note 13 - Long-Term Obligations

Original issue amounts and interest rates of the City's debt issues are as follows.

Debt Issue	Interest Rate	Original Issue	Year of Maturity
2012 Real Estate Acquisition and Urban Redevelopment Bonds	2.0% to 5.0%	\$14,130,000	2042
2010 Various Purpose Refunding Bonds	2.0% to 4.0%	5,430,000	2018
2014 Housing Development Special Obligation Bonds	3.55%	1,840,000	2029
<i>OPWC Loans</i>			
Liberty Road Bridge Replacement	0%	755,891	2002 to 2022
Whitehall Road Bridge Replacement	0%	188,822	2006 to 2025
Bexley Infrastructure	0%	1,247,424	2005 to 2024
Cedar Center	0%	260,039	2013 to 2033
Nine Mile Creek Rehabilitation	0%	341,315	2013 to 2033
Rainbow Creek	0%	132,399	2013 to 2033
Green Road	0%	543,801	2013 to 2033
Argonne Road	0%	692,186	2013 to 2043
South Green Traffic Signal	0%	N/A	N/A
<i>OAQDA Series A</i>	3.15%	386,146	2020
<i>OAQDA Series B</i>	5.45%	386,145	2026
2017 General Obligation Bond Anticipation Note	2.13%	700,000	2018
<i>OWDA Stormwater Improvement</i>	3.25%	2,052,371	2027
Police and Fire Pension	4.25%	391,010	1973 to 2035

City of South Euclid, Ohio
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A schedule of changes in bonds and other long-term obligations of the City during 2017 follows:

	Amount Outstanding 12/31/2016	Additions	Deletions	Amount Outstanding 12/31/2017	Amounts Due In One Year
Governmental Activities					
General Obligation Bonds:					
2012 Real Estate Acquisition and Urban Redevelopment Bonds					
Current Interest Serial Bonds	\$2,665,000	\$0	(\$300,000)	\$2,365,000	\$310,000
Term Bonds	10,885,000	0	0	10,885,000	0
Premium on 2012 Real Estate Acquisition and Urban Redevelopment Bonds	1,243,834	0	(48,305)	1,195,529	0
Total 2012 Real Estate Acquisition and Urban Redevelopment Bonds	14,793,834	0	(348,305)	14,445,529	310,000
2010 Various Purpose					
General Obligation Refunding Bonds	1,515,000	0	(745,000)	770,000	770,000
Premium on Various Purpose Bonds	64,354	0	(33,576)	30,778	0
Total 2010 Various Purpose General Obligation Refunding Bonds	1,579,354	0	(778,576)	800,778	770,000
Total General Obligation Bonds	16,373,188	0	(1,126,881)	15,246,307	1,080,000
Special Obligation Bonds:					
2014 Housing Development	1,665,000	0	(105,000)	1,560,000	105,000
OPWC Loans:					
Liberty Road Bridge Replacement	226,766	0	(37,795)	188,971	37,795
Whitehall Road Bridge Replacement	89,691	0	(9,441)	80,250	9,441
Bexley Infrastructure	498,970	0	(62,371)	436,599	62,371
Cedar Center	218,117	0	(13,219)	204,898	13,219
Nine Mile Creek Rehabilitation	217,745	0	(13,197)	204,548	13,197
Rainbow Creek	91,114	0	(5,522)	85,592	5,522
Green Road	581,693	0	(35,254)	546,439	35,254
Argone Road	647,062	0	(24,417)	622,645	24,417
South Green Traffic Signal	8,209	0	0	8,209	0
Total OPWC Loans	2,579,367	0	(201,216)	2,378,151	201,216
OAQDA Loans:					
OAQDA 2011 Series A	177,374	0	(49,393)	127,981	50,949
OAQDA 2011 Series B	388,920	0	0	388,920	0
Total OAQDA Loans	566,294	0	(49,393)	516,901	50,949
General Obligation BAN's:					
2017 General Obligation BAN	0	700,000	0	700,000	0
Premium	0	3,906	(2,930)	976	0
2016 General Obligation BAN	1,600,000	0	(1,600,000)	0	0
Premium	2,960	0	(2,960)	0	0
Total General Obligation BAN's	\$1,602,960	\$703,906	(\$1,605,890)	\$700,976	\$0

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	Amount Outstanding 12/31/2016	Additions	Deletions	Amount Outstanding 12/31/2017	Amounts Due In One Year
Governmental Activities Continued					
Other Long-term Obligations					
Net Pension Liability					
OPERS	\$4,847,527	\$1,459,929	\$0	\$6,307,456	\$0
OP&F	17,562,924	53,932	0	17,616,856	0
Total Net Pension Liability	22,410,451	1,513,861	0	23,924,312	0
OWDA Stormwater Improvement	1,190,182	0	(102,505)	1,087,677	105,864
Police and Fire Pension	248,318	0	(9,093)	239,225	9,483
Capital Lease	130,169	0	(38,703)	91,466	39,528
Compensated Absences	894,934	95,989	(67,470)	923,453	35,487
<i>Total Other Long-term Obligations</i>	<u>24,874,054</u>	<u>1,609,850</u>	<u>(217,771)</u>	<u>26,266,133</u>	<u>190,362</u>
<i>Total Governmental Activities</i>	<u>\$47,660,863</u>	<u>\$2,313,756</u>	<u>(\$3,306,151)</u>	<u>\$46,668,468</u>	<u>\$1,627,527</u>

During 2012, the City issued \$14,130,000 in Real Estate Acquisition and Urban Redevelopment General Obligation Bonds for construction projects throughout the City. The bonds were sold at a premium of \$1,449,127. These Real Estate Acquisition and Urban Redevelopment General Obligation bonds will be paid with revenues from the land acquisition capital projects fund.

The Real Estate Acquisition and Urban Redevelopment General Obligation Bonds maturing on December 1, 2027, 2032 and 2042 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Issue		
	\$1,205,000	\$2,460,000	\$7,220,000
2025	\$380,000	\$0	\$0
2026	400,000	0	0
2028	0	445,000	0
2029	0	465,000	0
2030	0	490,000	0
2031	0	515,000	0
2033	0	0	570,000
2034	0	0	600,000
2035	0	0	630,000
2036	0	0	665,000
2037	0	0	695,000
2038	0	0	735,000
2039	0	0	770,000
2040	0	0	810,000
2041	0	0	850,000
Total mandatory sinking fund payments	780,000	1,915,000	6,325,000
Amount due at stated maturity	425,000	545,000	895,000
Total	<u>\$1,205,000</u>	<u>\$2,460,000</u>	<u>\$7,220,000</u>
<i>Stated Maturity</i>	<u>12/1/2027</u>	<u>12/1/2032</u>	<u>12/1/2042</u>

During 2010, the City issued \$5,430,000 in Various Purpose General Obligation Bonds for the purpose of refunding the 2003 General Obligation Bonds in order to take advantage of lower interest rates and for construction projects throughout the City.

City of South Euclid, Ohio
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In 2010, the City defeased previously issued various purpose bonds in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2017, \$829,600 of the defeased bonds are still outstanding.

During 2014, the City issued \$1,840,000 in Housing Development Special Obligation Bonds for the purpose of bonding previously issued notes. These Housing Development Special Obligation bonds will be paid with non-tax revenues from the land acquisition capital projects fund.

In 2017, the City rolled \$700,000 in general obligation bond anticipation notes for the purchase of land held for resale. These notes mature on March 21, 2018. All of the proceeds have been spent.

The OPWC and OWDA loans were issued for various improvements and will be paid with special assessment revenue from the flood control capital projects fund. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt.

A line of credit has been established with the Ohio Public Works Commission in the amount of \$118,695 for South Green traffic signals. The balance of the loan at December 31, 2017 was \$8,209. Since the loan was not yet finalized, a repayment schedule is not included in the schedule of debt service payments. The loan will be paid from the flood control capital projects fund.

The OAQDA loans were issued for improvements to air quality facilities and will be paid with revenues from the general obligation bond retirement fund.

The police and fire pension liability represents police and fire pension obligations and will be paid from taxes received in the general fund. The capital lease will be paid from resources received in the general capital improvements capital projects fund.

Compensated absences will be paid from the general fund and the street construction maintenance and repair and the sewer rental special revenue funds. The City pays obligations related to employee compensation from the fund benefitting from their service. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds; the general fund and the street construction, maintenance and repair, sewer rental and safety forces levy special revenue funds.

As of December 31, 2017, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$31,111,080 and the unvoted legal debt margin was \$12,890,345. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2017 are as follows:

City of South Euclid, Ohio
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	General Obligation Bonds		OWDA Loans		Police and Fire Pension		OPWC Loans
	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2018	\$1,080,000	\$640,068	\$105,864	\$34,497	\$9,483	\$10,067	\$201,216
2019	325,000	596,568	109,333	31,027	9,890	9,660	201,216
2020	325,000	586,818	112,915	27,446	10,315	9,235	201,216
2021	340,000	579,743	116,614	23,746	10,708	8,844	201,214
2022	345,000	571,822	120,435	19,925	11,220	8,330	201,216
2023-2027	1,925,000	2,659,463	522,516	38,926	63,758	33,992	615,832
2028-2032	2,460,000	2,125,000	0	0	78,681	19,073	458,046
2033-2037	3,160,000	1,425,750	0	0	45,170	2,832	155,687
2038-2042	4,060,000	527,500	0	0	0	0	122,090
2043	0	0	0	0	0	0	12,209
Total	\$14,020,000	\$9,712,732	\$1,087,677	\$175,567	\$239,225	\$102,033	\$2,369,942

	Special Obligation			
	OAQDA Loans		Bonds	
	Principal	Interest	Principal	Interest
2018	\$50,949	\$24,186	\$105,000	\$55,380
2019	52,554	22,556	110,000	51,652
2020	54,209	20,501	115,000	47,748
2021	55,589	17,757	120,000	43,666
2022	56,867	14,689	125,000	39,405
2023-2027	246,733	26,651	680,000	127,977
2028-2029	0	0	305,000	16,330
Total	\$516,901	\$126,340	\$1,560,000	\$382,158

Note 14 - Contingencies

Grants

The City received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2017.

Litigation

The City is party to legal proceedings. The City management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 15 - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn two to six weeks of vacation per year, depending on length of service. Employees may use accumulated vacation after the completion of one year of service with the City.

City of South Euclid, Ohio
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Upon termination of service, an employee is entitled to receive payment for any unused vacation time plus accrued vacation time earned during the year but not yet credited to vacation leave balance. On January 1, an employee is given credit for, and may begin using, vacation time earned during the preceding year.

Employees earn sick leave at a rate of 4.6 hours per 80 hours of service. Sick leave accumulation is generally limited to 1,200 hours for all employees except for firefighters who can accumulate up to 2,000 hours. Upon retirement or death and at least ten years of service, non-union employees can be paid one third and union employees can be paid one half of the accrued sick leave accumulated, up to the maximum hours allowed.

Note 16 – Capital Lease

In prior years, the City had entered into a capital lease obligation for copiers and a John Deere Tractor. The leases meet the criteria for a capital lease and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and the book values as of December 31, 2017 are as follows:

	Amounts
Vehicles	\$164,841
Equipment	57,787
Total Capitalized	222,628
Less: Accumulated Depreciation	(83,272)
Current Book Value	\$139,356

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2017.

	Amounts
2018	\$41,256
2019	41,259
2020	11,558
Total Minimum Lease Payments	94,073
Less: Amount representing interest	(2,607)
Present Value of Minimum Lease Payments	\$91,466

Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements for the general capital improvements capital projects fund. These expenditures are reflected as program expenditures on a budgetary basis.

Note 17 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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Group A	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

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$454,875 for 2017. Of this amount, \$67,357 is reported as an intergovernmental payable.

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F

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

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

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

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

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

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

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

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	<u>Police</u>	<u>Firefighters</u>
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,265,037 for 2017. Of this amount, \$194,939 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2017, the specific liability of the City was \$239,225 payable in semi-annual payments through the year 2035.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.027776%	0.2781360%	
Prior Measurement Date	<u>0.027986%</u>	<u>0.2730100%</u>	
Change in Proportionate Share	<u>-0.0002100%</u>	<u>0.0051260%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$6,307,456	\$17,616,856	\$23,924,312
Pension Expense	\$1,313,261	\$2,196,398	\$3,509,659

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

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	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$8,549	\$4,984	\$13,533
Changes of assumptions	1,000,440	0	1,000,440
Net difference between projected and actual earnings on pension plan investments	939,326	1,713,162	2,652,488
Changes in proportion and differences between City contributions and proportionate share of contributions	0	244,944	244,944
City contributions subsequent to the measurement date	<u>454,875</u>	<u>1,265,037</u>	<u>1,719,912</u>
Total Deferred Outflows of Resources	<u>\$2,403,190</u>	<u>\$3,228,127</u>	<u>\$5,631,317</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$37,539	\$40,561	\$78,100
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>37,679</u>	<u>0</u>	<u>37,679</u>
Total Deferred Inflows of Resources	<u>\$75,218</u>	<u>\$40,561</u>	<u>\$115,779</u>

\$1,719,912 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2018	\$762,609	\$698,713	\$1,461,322
2019	804,845	698,713	1,503,558
2020	333,179	543,464	876,643
2021	(27,536)	(68,160)	(95,696)
2022	0	45,156	45,156
Thereafter	<u>0</u>	<u>4,643</u>	<u>4,643</u>
Total	<u>\$1,873,097</u>	<u>\$1,922,529</u>	<u>\$3,795,626</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the

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requirements of GASB 67. In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2016, compared with December 31, 2015, are presented below.

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

For 2016, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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

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

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the

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Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

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

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

Discount Rate The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$9,636,050	\$6,307,456	\$3,533,663

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual

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valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
	plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.6 percent simple for increases based on the lesser of the increase in CPI and 3 percent

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

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

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

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

Note: Assumptions are geometric.

* levered 2x

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

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$23,463,563	\$17,616,856	\$12,661,690

Changes between Measurement Date and Report Date

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

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Note 18 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

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

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

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

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

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$69,981, \$72,011, and \$69,465, respectively. For 2017, 93.68 percent has been

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contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

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

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

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

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

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

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

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

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

The City's contribution to OP&F for the years ended December 31, 2017, 2016, and 2015 were \$1,295,001, \$1,268,573, and \$1,198,993, respectively, of which \$29,964, \$29,355, and \$27,814, respectively, was allocated to the healthcare plan. For 2017, 96.28 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

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Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 19 - Jointly Governed Organizations

Community Partnership on Aging

The Community Partnership on Aging (Partnership) is a regional council of government formed under Chapter 167 of the Ohio Revised Code. The Partnership was formed between the Cities of South Euclid, Lyndhurst, Mayfield Heights and Highland Heights, for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and federal grants. The Partnership is controlled by the Council composed of the Mayors of the Cities of South Euclid, Lyndhurst, Mayfield Heights and Highland Heights, with the advice of a nine member commission. Continued existence of the Partnership is dependent on the City's continued participation; however the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. In 2017, the City contributed \$241,970, paid from the general fund, which represented 33.15 percent of Partnership revenues. To obtain a copy of the Partnership's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio, 44121.

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 electricity and natural gas. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas 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 community then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not make any contributions to NOPEC during 2017. Financial information can be obtained by contacting Ron McVoy, Board Chairman, at 31360 Solon Road, Suite 33, Solon, Ohio 44139 or at their website at www.nopecinfo.org.

First Suburbs Consortium of Northeast Ohio Council of Governments

The City is a member of the First Suburbs Consortium of Northeast Ohio Council of Governments (Council). The Council is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. The Council is currently comprised of 19 communities. The Council was formed to foster cooperation between municipalities in matters of mutual concern, including but not limited to initiation and support of policies and practices which protect, maintain, and redevelop mature communities and other matters which affect health, safety, welfare, education, economic conditions and regional development.

The Council is governed by an Assembly made up of 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 Board oversees and manages the council including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2017, the City of South Euclid contributed \$3,000 for membership to the Council. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 165 Center Road, Bedford, Ohio 44146.

City of South Euclid, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Note 20 - Interfund Transactions

Interfund Transfers

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

Transfers To	Transfers From General
Major Fund:	
Land Acquisition	\$615,550
Other Governmental Funds:	
General Obligation Bond Retirement	64,000
Sewer Rental	88,224
General Capital Improvements	343,349
Road Improvement	42,419
Total Other Governmental Funds	537,992
<i>Total</i>	<i>\$1,153,542</i>

The general obligation bond retirement fund received a transfer from the general fund to help pay for debt. The sewer rental special revenue fund received a transfer from the general fund to help pay expenditures. The land acquisition, general capital improvement and road improvement capital projects funds received transfers from the general fund to fund capital purchases.

Interfund Balances

Interfund balances at December 31, 2017, consist of an interfund payable in the amount of \$700,000 in the land acquisition fund for the payment of debt to the general fund. It is expected to be paid within one year.

Note 21 – Significant Commitments

Encumbrances

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

General Fund	\$934,588
Flood Control	308,880
Land Acquisition	24,502
Other Governmental Funds	1,480,684
<i>Total</i>	<i>\$2,748,654</i>

City of South Euclid, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

Contracts

As of December 31, 2017, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid To Date	Remaining Contract
Trax Construction	\$470,692	\$396,172	\$74,520
Longo Sewer Construction	772,088	755,384	16,704
Ronyak Paving Inc.	109,768	105,761	4,007
<i>Total</i>	<u>\$1,352,548</u>	<u>\$1,257,317</u>	<u>\$95,231</u>

Remaining commitment amounts were encumbered at year end.

Note 22 – Change in Accounting Principle

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

Note 23 – Subsequent Events

On March 21, 2018 the City issued general obligation bond anticipation notes in the amount of \$700,000 at a rate of 2.13 percent with a maturity date of March 21, 2019.

City of South Euclid, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2017

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Required Supplementary Information

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

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0277760%	0.0279860%	0.0284490%	0.0284490%
City's Proportionate Share of the Net Pension Liability	\$6,307,456	\$4,847,527	\$3,431,267	\$3,353,766
City's Covered Payroll	\$3,600,550	\$3,473,236	\$3,487,850	\$3,459,745
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.18%	139.57%	98.38%	96.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

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

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

See notes to the Required Supplementary Information.

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

	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.2781360%	0.2730100%	0.2726124%	0.2726124%
City's Proportionate Share of the Net Pension Liability	\$17,616,856	\$17,562,924	\$14,122,459	\$13,277,079
City's Covered Payroll	\$5,871,187	\$5,562,718	\$5,435,025	\$5,514,323
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	300.06%	315.73%	259.84%	240.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

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

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

See notes to the Required Supplementary Information.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$454,875	\$432,066	\$416,788	\$418,542	\$449,767
Contributions in Relation to the Contractually Required Contribution	<u>(454,875)</u>	<u>(432,066)</u>	<u>(416,788)</u>	<u>(418,542)</u>	<u>(449,767)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$3,499,038	\$3,600,550	\$3,473,236	\$3,487,850	\$3,459,745
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

See notes to the Required Supplementary Information.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,265,037	\$1,239,217	\$1,171,179	\$1,140,865
Contributions in Relation to the Contractually Required Contribution	<u>(1,265,037)</u>	<u>(1,239,217)</u>	<u>(1,171,179)</u>	<u>(1,140,865)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$5,992,791	\$5,871,187	\$5,562,718	\$5,435,025
Contributions as a Percentage of Covered Payroll	21.11%	21.11%	21.05%	20.99%

See notes to the Required Supplementary Information.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$989,937	\$828,048	\$790,312	\$818,864	\$972,389	\$828,476
<u>(989,937)</u>	<u>(828,048)</u>	<u>(790,312)</u>	<u>(818,864)</u>	<u>(972,389)</u>	<u>(828,476)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$5,514,323	\$5,598,502	\$5,341,324	\$5,487,617	\$6,516,729	\$5,566,448
17.95%	14.79%	14.80%	14.92%	14.92%	14.88%

City of South Euclid, Ohio
Notes To The Required Supplementary Information
For The Year Ended December 31, 2017

Changes in Assumptions - OPERS

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

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

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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

OHIO AUDITOR OF STATE KEITH FABER



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

City of South Euclid
Cuyahoga County
1349 South Green Road
South Euclid, Ohio 44121

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Euclid, Cuyahoga County, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 24, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

July 24, 2019

OHIO AUDITOR OF STATE KEITH FABER



CITY OF SOUTH EUCLID

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
JULY 30, 2019**