



Dave Yost • Auditor of State

CITY OF BELLBROOK
GREENE COUNTY
DECEMBER 31, 2016

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities.....	17
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Net Position Proprietary Funds	22
Statement of Revenue, Expenses and Changes in Fund Net Position Proprietary Funds	23
Statement of Cash Flows Proprietary Funds	24
Statement of Fiduciary Assets and Liabilities Fiduciary Fund.....	25
Notes to the Basic Financial Statements	26

CITY OF BELLBROOK
GREENE COUNTY
DECEMBER 31, 2016

TABLE OF CONTENTS
(Continued)

<u>TITLE</u>	<u>PAGE</u>
Required Supplementary Information:	
Schedule of City's Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Traditional Plan	58
Schedule of City's Proportionate Share of the Net Pension Liability – Ohio Police and Fire Pension Fund.....	59
Schedule of City's Contributions – Ohio Public Employees Retirement System – Traditional Plan	60
Schedule of City's Contributions – Ohio Police and Fire Pension Fund.....	61
Schedules of Revenue, Expenditures, & Changes in Fund Balances – Budget and Actual - Budgetary (Non-GAAP) Basis	
General Fund.....	62
Street Fund.....	63
Police Fund.....	64
Fire Fund	65
Notes to Required Supplementary Information	66
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	69



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Bellbrook
Greene County
15 East Franklin Street
Bellbrook, Ohio 45305

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bellbrook, Greene County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bellbrook, Greene County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows 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*, *Required budgetary comparison schedules* 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 October 2, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2017

City of Bellbrook, Ohio

Management's Discussion and Analysis For the Year Ended December 31, 2016 (UNAUDITED)

The management's discussion and analysis of the City of Bellbrook's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The total net position of the City increased \$138,505 or 0.67%. Net position of governmental activities decreased \$382,134 or -5.12% and net position of business-type activities increased \$520,639 or 3.92%.
- Unrestricted net position of the City increased \$39,443 or 12.78%. Unrestricted net position of governmental activities increased \$29,297 or 2.03% and unrestricted net position of business-type activities increased \$10,146 or 0.58%.
- Total revenues increased \$77,180 or 1.13%. Revenues of governmental activities increased \$51,482 or 1.19% and revenues of business-type activities increased \$25,698 or 1.04%.
- Total expenses increased \$404,617 or 6.38%. Expenses of governmental activities increased \$355,652 or 8.05% and expenses of business-type activities increased \$48,965 or 2.55%.
- As of December 31, 2016 the City's governmental funds report combined ending fund balances of \$2.75 million. Approximately 46% or \$1.25 million of this fund balance is available for spending at the City's discretion (unassigned fund balance).

Using this Annual Financial Report

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

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

City of Bellbrook, Ohio

Management's Discussion and Analysis For the Year Ended December 31, 2016 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

City of Bellbrook, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)

statements focus on the City's most significant funds.

Governmental Funds

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

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

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

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and waste collection functions. All of the City's enterprise funds are considered major funds.

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data

City of Bellbrook, Ohio

**Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)**

provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The largest impact on the City's financial statements in 2016 had absolutely no impact on the City's financial condition: GASB Statement 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27." GASB 68 required the City to recognize a pension liability of over \$5.6 million. 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 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

City of Bellbrook, Ohio

**Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)**

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.

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2016 compared to 2015.

Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 6,364,448	\$ 6,366,601	\$ 2,385,071	\$ 2,254,999	\$ 8,749,519	\$ 8,621,600
Capital assets	<u>7,469,141</u>	<u>6,886,790</u>	<u>13,290,675</u>	<u>12,926,355</u>	<u>20,759,816</u>	<u>19,813,145</u>
Total assets	<u>13,833,589</u>	<u>13,253,391</u>	<u>15,675,746</u>	<u>15,181,354</u>	<u>29,509,335</u>	<u>28,434,745</u>
Deferred outflows of resources	<u>1,721,178</u>	<u>1,236,673</u>	<u>230,856</u>	<u>85,104</u>	<u>1,952,034</u>	<u>1,321,777</u>
Current liabilities	419,163	144,918	170,969	90,717	590,132	235,635
Non-current liabilities	<u>5,251,079</u>	<u>4,200,096</u>	<u>1,929,386</u>	<u>1,894,791</u>	<u>7,180,465</u>	<u>6,094,887</u>
Total liabilities	<u>5,670,242</u>	<u>4,345,014</u>	<u>2,100,355</u>	<u>1,985,508</u>	<u>7,770,597</u>	<u>6,330,522</u>
Deferred inflows of resources	<u>2,799,477</u>	<u>2,677,868</u>	<u>12,770</u>	<u>8,112</u>	<u>2,812,247</u>	<u>2,685,980</u>
Net Position:						
Net investment in capital assets	7,469,141	6,886,790	12,031,908	11,521,415	19,501,049	18,408,205
Restricted	1,029,375	2,023,157	0	0	1,029,375	2,023,157
Unrestricted	<u>(1,413,468)</u>	<u>(1,442,765)</u>	<u>1,761,569</u>	<u>1,751,423</u>	<u>348,101</u>	<u>308,658</u>
Total net position	<u>\$ 7,085,048</u>	<u>\$ 7,467,182</u>	<u>\$13,793,477</u>	<u>\$13,272,838</u>	<u>\$20,878,525</u>	<u>\$20,740,020</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$20,878,525. At year-end, net position was \$7,085,048 and

City of Bellbrook, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)

\$13,793,477 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, net investment in capital assets represented 93.40% of total net position. Capital assets include land, land improvements, buildings and improvements, vehicles, utility structures in service, machinery and equipment and infrastructure. Net investment in capital assets at December 31, 2016, was \$7,469,141 and \$12,031,908 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$1,029,375, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the comparative analysis of changes in net position for fiscal year 2016 compared to 2015.

	Governmental activities		Business-type activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services	\$191,490	\$ 219,275	\$2,092,386	\$1,974,569	\$2,283,876	\$2,193,844
Operating grants and contributions	399,103	432,163	0	0	399,103	432,163
Capital grants and contributions	371,844	259,989	398,729	490,848	770,573	750,837
General revenues:						
Property taxes	2,701,968	2,685,991	0	0	2,701,968	2,685,991
Estate taxes	0	2,000	0	0	0	2,000
Grants and other contributions not restricted to specific programs	629,435	638,322	0	0	629,435	638,322
Investment earnings	34,673	12,191	0	0	34,673	12,191
Gain/(loss) on sale of capital assets	30,727	13,607	0	0	30,727	13,607
Miscellaneous	<u>32,785</u>	<u>77,005</u>	<u>0</u>	<u>0</u>	<u>32,785</u>	<u>77,005</u>
Total revenues	<u>4,392,025</u>	<u>4,340,543</u>	<u>2,491,115</u>	<u>2,465,417</u>	<u>6,883,140</u>	<u>6,805,960</u>
Expenses						
General government	461,525	449,341	0	0	461,525	449,341
Public Safety	3,578,877	3,274,041	0	0	3,578,877	3,274,041
Community environment	91,702	87,731	0	0	91,702	87,731
Recreation	13,426	17,636	0	0	13,426	17,636
Transportation	628,629	589,758	0	0	628,629	589,758
Waste collection	0	0	418,939	412,851	418,939	412,851
Water	<u>0</u>	<u>0</u>	<u>1,551,537</u>	<u>1,508,660</u>	<u>1,551,537</u>	<u>1,508,660</u>
Total expenses	<u>4,774,159</u>	<u>4,418,507</u>	<u>1,970,476</u>	<u>1,921,511</u>	<u>6,744,635</u>	<u>6,340,018</u>

City of Bellbrook, Ohio

**Management’s Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)**

Change in net position \$ (382,134) \$ (77,964) \$ 520,639 \$ 543,906 \$ 138,505 \$ 465,942

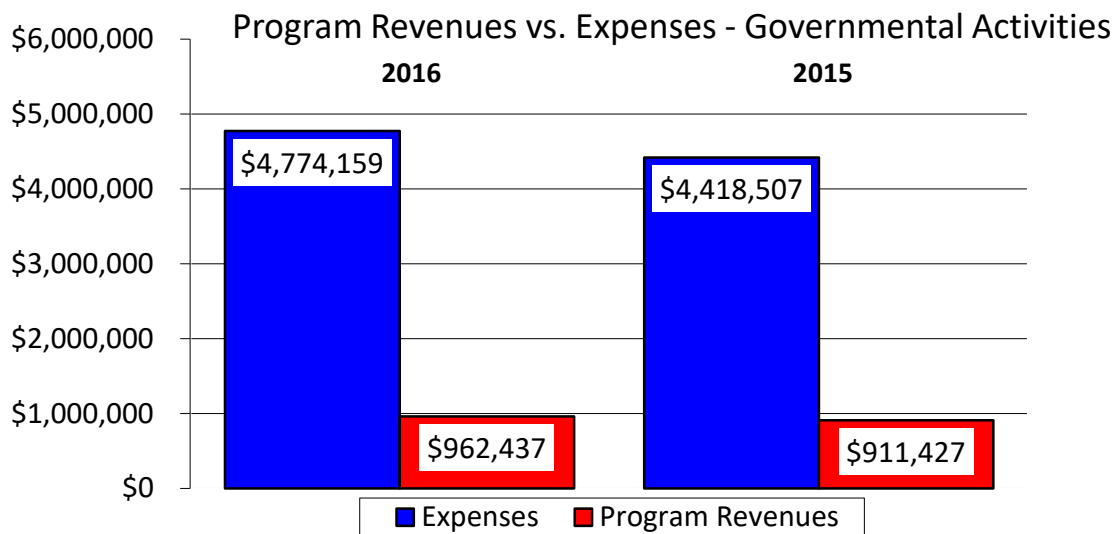
Governmental Activities

Governmental activities net position decreased in 2016. Public safety which primarily supports the operations of the police and fire department accounted for \$3,578,877 or 75.0% of the total governmental activity expenses of the City. Public safety expenses were partially funded by \$140,773 in direct charges to users of the services. General government expenses totaled \$461,525. General government expenses were partially funded by \$29,623 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$399,103 in operating grants and contributions. These revenues are restricted to a particular program or purpose; \$398,665 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$3,429,588, and amounted to 78.1% of total governmental revenues. The primary source of these general revenues is property taxes of \$2,701,968. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government funds and homestead and rollback reimbursements from the State of Ohio, making up \$629,435.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total expenses and program revenues. The difference identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

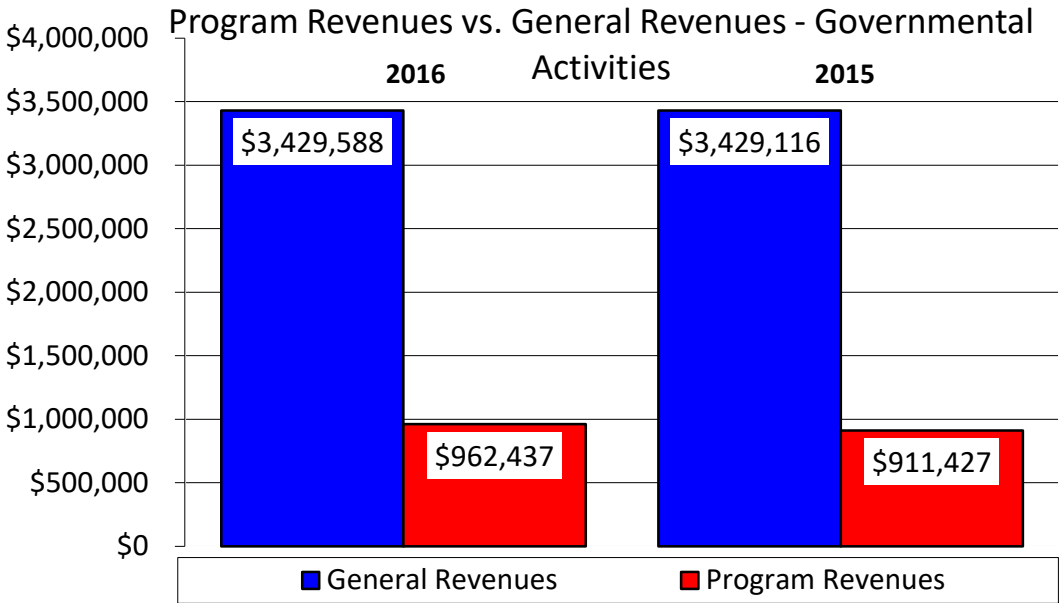


The dependence upon general revenues for governmental activities is apparent, with 79.8% of

City of Bellbrook, Ohio

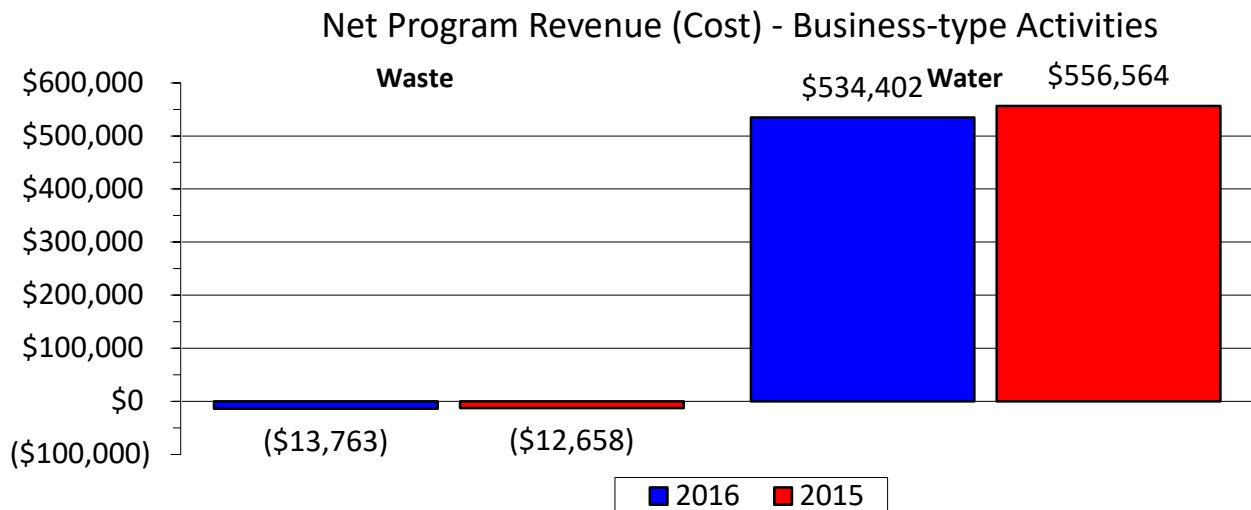
Management’s Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)

expenses supported through taxes and other general revenues. The chart below illustrates the City’s program revenues versus general revenues for 2016 and 2015.



Business-type Activities

Business-type activities include the water and waste collection enterprise funds. These programs had program revenues of \$2,491,115 and expenses of \$1,970,476 for 2016. The graph below shows the net program revenue (cost) for each business-type activity:



City of Bellbrook, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds reported a combined fund balance of \$2,749,399 which is \$327,132 below last year's total of \$3,076,531. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2016 for all major and non-major governmental funds.

	Fund Balance <u>12/31/16</u>	Fund Balance <u>12/31/15</u>	Increase <u>(Decrease)</u>
Major Funds:			
General	\$1,318,308	\$1,267,803	\$50,505
Street	190,506	166,653	23,853
Police	249,321	189,383	59,938
Fire	127,193	154,080	(26,887)
Capital improvement	639,200	1,099,063	(459,863)
Other non-major governmental funds	<u>224,871</u>	<u>199,549</u>	<u>25,322</u>
Total	<u>\$2,749,399</u>	<u>\$3,076,531</u>	<u>\$(327,132)</u>

The City's **general fund** balance increased \$50,505. The table that follows assists in illustrating the revenues of the general fund.

	2016 <u>Amount</u>	2015 <u>Amount</u>	Percentage <u>Change</u>
General Fund Revenues:			
Local taxes	\$575,527	\$576,587	-0.2%
Intergovernmental	184,752	189,069	-2.3%
Special assessments	1,680	0	100.0%
Charges for services	25,599	34,335	-25.4%
Fines, licenses & permits	133,553	147,257	-9.3%
Investment income	34,657	12,179	184.6%
Miscellaneous receipts	<u>12,577</u>	<u>10,546</u>	19.3%
Total	<u>\$968,345</u>	<u>\$969,973</u>	-0.2%

City of Bellbrook, Ohio

Management's Discussion and Analysis For the Year Ended December 31, 2016 (UNAUDITED)

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

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
General Fund Expenditures:			
General government	\$367,758	\$363,912	1.1%
Public safety	0	10,690	-100.0%
Community environment	87,070	85,739	1.6%
Recreation	13,012	17,017	-23.5%
Other financing uses:			
Transfers out	<u>450,000</u>	<u>450,000</u>	0.0%
Total	<u>\$917,840</u>	<u>\$927,358</u>	-1.0%

The **street fund** had revenues of \$310,000 in 2016. The expenditures of the street fund, totaled \$286,147 in 2016. The net increase in fund balance for the street fund was \$23,853 or 14.3%.

The **police fund** had revenues and other financing sources of \$1,635,656 in 2016. The expenditures of the police fund totaled \$1,575,718 in 2016. The net increase in fund balance for the police fund was \$59,938 or 31.6%. The increase can be attributed to decreased personnel costs.

The **fire fund** had revenues and other financing sources of \$1,090,163 in 2016. The expenditures of the fire fund totaled \$1,117,050 in 2016. The net decrease in fund balance for the fire fund was \$26,887 or -17.5%. The decrease can be attributed increased personnel and operational costs combined with flat revenue.

The **capital improvement fund** had revenues and other financing sources of \$344,554 in 2016. The expenditures of the capital improvement fund totaled \$804,417 in 2016. The net decrease in fund balance for the capital improvement fund was \$459,863 or -41.8%. The decrease can be attributed to the completion of several planned capital projects using existing reserves of the capital improvement fund.

General Fund Budgetary Highlights

General fund appropriations were decreased by \$17,825 in 2016. Actual expenditures were \$21,843 less than the final appropriations. In addition, actual revenues were less than budgetary estimates by \$467.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016, the City had \$20,759,816 (net of accumulated depreciation) invested

City of Bellbrook, Ohio

**Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)**

in land, land improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure, and utility structures in service. Of this total, \$7,469,141 was reported in governmental activities and \$13,290,675 was reported in business-type activities. Further details regarding the City's capital assets can be found in Note 5 to the Financial Statements.

Debt Administration

The City had the following long-term debt outstanding at December 31, 2016 and 2015:

	Business-type Activities	
	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 360,000	\$ 425,000
OPWC loans	<u>898,767</u>	<u>979,940</u>
Total	<u>\$1,258,767</u>	<u>\$1,404,940</u>

Further detail on the City's long-term obligations can be found in Note 9 to the financial statements.

Economic Conditions and Outlook

The City of Bellbrook is among four cities in Ohio (out of a total of over 250 cities) that do not levy a local income tax. This means that the gain or loss of jobs in the local economy has little impact upon revenues in the General Fund. Bellbrook is a suburban, residential community with virtually no manufacturing businesses and a limited number of service and retail operations.

The largest source of revenue is property taxes, primarily generated from single-family housing. Residential development boomed in the 1980's and 1990's but has moderated recently as land available for residential building has become more limited in Bellbrook.

In 2016, there were two active housing developments underway. New single-family housing permits remained steady in 2016. As the housing market continues to improve, the two housing active developments are expected to be completed. One bright spot in the housing market is the City's proximity to the Wright Patterson Air Force Base, the largest employer in the area.

The State of Ohio, in an effort to balance their budget, has decreased several forms of state aid that the City currently receives. These cuts began to impact the City finances in 2011, but the full effect of their impact is now being felt. The State's current and next proposed biennial budgets do not include further reductions at this time.

Police and fire department operations are funded by their own property tax levies with major capital costs paid from the capital improvement fund. Service Department costs are funded by the water and street funds with some capital construction costs such as street reconstruction paid from the capital improvement fund.

City of Bellbrook, Ohio

**Management's Discussion and Analysis
For the Year Ended December 31, 2016
(UNAUDITED)**

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and 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 please contact: Mr. Mark Schlagheck, City Manager/Finance Director, 15 East Franklin Street, Bellbrook, Ohio 45305.

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**City of Bellbrook
Statement of Net Position
December 31, 2016**

	Governmental Activities	Business-type Activities	Total
Assets			
Pooled cash and investments	\$ 2,871,711	\$ 1,981,342	\$ 4,853,053
Cash and cash equivalents with fiscal agents	49,109	-	49,109
Receivables (net):			
Taxes	2,822,562	-	2,822,562
Accounts	85,184	311,251	396,435
Intergovernmental	406,553	-	406,553
Interest	5,011	-	5,011
Special assessments	9,229	2,129	11,358
Inventory	52,968	73,315	126,283
Prepaid items	62,121	17,034	79,155
Capital assets:			
Non-depreciable capital assets	262,230	604,370	866,600
Depreciable capital assets, net	7,206,911	12,686,305	19,893,216
<i>Total assets</i>	<u>13,833,589</u>	<u>15,675,746</u>	<u>29,509,335</u>
Deferred Outflows of Resources			
Pensions	1,721,178	230,856	1,952,034
<i>Total deferred outflows of resources</i>	<u>1,721,178</u>	<u>230,856</u>	<u>1,952,034</u>
Liabilities			
Accounts payable	\$ 331,248	\$ 124,580	\$ 455,828
Accrued liabilities	86,348	21,299	107,647
Due to other governments	1,567	305	1,872
Unearned revenue	-	23,341	23,341
Accrued interest payable	-	1,444	1,444
Noncurrent liabilities:			
Due within one year	179,594	149,449	329,043
Due in more than one year			
Net pension liability	5,037,651	635,316	5,672,967
Other amounts	33,834	1,144,621	1,178,455
<i>Total liabilities</i>	<u>5,670,242</u>	<u>2,100,355</u>	<u>7,770,597</u>
Deferred Inflows of Resources			
Property taxes	2,708,707	-	2,708,707
Pensions	90,770	12,770	103,540
<i>Total deferred inflows of resources</i>	<u>2,799,477</u>	<u>12,770</u>	<u>2,812,247</u>
Net Position			
Net investment in capital assets	7,469,141	12,031,908	19,501,049
Restricted for:			
Public safety	454,412	-	454,412
Streets & highways	574,963	-	574,963
Unrestricted	(1,413,468)	1,761,569	348,101
<i>Total net position</i>	<u>\$ 7,085,048</u>	<u>\$ 13,793,477</u>	<u>\$ 20,878,525</u>

See Notes to the Basic Financial Statements.

**City of Bellbrook
Statement of Activities
For the Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 461,525	\$ 29,623	\$ -	\$ -	\$ (431,902)	\$ (431,902)
Public safety	3,578,877	140,773	438	497	(3,437,169)	(3,437,169)
Community environment	91,702	17,192	-	-	(74,510)	(74,510)
Recreation	13,426	-	-	-	(13,426)	(13,426)
Transportation	<u>628,629</u>	<u>3,902</u>	<u>398,665</u>	<u>371,347</u>	<u>145,285</u>	<u>145,285</u>
Total governmental activities	<u>4,774,159</u>	<u>191,490</u>	<u>399,103</u>	<u>371,844</u>	<u>(3,811,722)</u>	<u>(3,811,722)</u>
Business-type activities:						
Waste collection	418,939	405,176	-	-	\$ (13,763)	(13,763)
Water	<u>1,551,537</u>	<u>1,687,210</u>	-	<u>398,729</u>	<u>534,402</u>	<u>534,402</u>
Total business-type activities	<u>1,970,476</u>	<u>2,092,386</u>	-	<u>398,729</u>	<u>520,639</u>	<u>520,639</u>
Total	<u>\$ 6,744,635</u>	<u>\$ 2,283,876</u>	<u>\$ 399,103</u>	<u>\$ 770,573</u>	<u>(3,811,722)</u>	<u>520,639</u>
General revenues:						
Taxes:						
Property taxes					2,701,968	2,701,968
Grants and contributions not restricted to specific programs					629,435	629,435
Investment earnings					34,673	34,673
Gain on sale/disposal of capital assets					30,727	30,727
Miscellaneous					<u>32,785</u>	<u>32,785</u>
Total general revenues					<u>3,429,588</u>	<u>3,429,588</u>
Change in net position					(382,134)	520,639
Net position - beginning					<u>7,467,182</u>	<u>13,272,838</u>
Net position - ending					<u>\$ 7,085,048</u>	<u>\$ 13,793,477</u>
						<u>\$ 20,878,525</u>

See Notes to the Basic Financial Statements.

**City of Bellbrook
Balance Sheet
Governmental Funds
December 31, 2016**

	General	Street	Police	Fire	Capital Improvements	Non-major Govern- mental Funds	Total Governmental Funds
Assets							
Pooled cash and investments	\$1,280,110	\$ 135,198	\$ 237,194	\$ 123,190	\$ 916,984	\$ 179,035	\$ 2,871,711
Receivables (net):							
Taxes	606,977	-	1,373,158	776,715	-	65,712	2,822,562
Accounts	27,041	-	-	58,143	-	-	85,184
Intergovernmental	91,716	147,729	99,209	42,657	-	25,242	406,553
Interest	5,011	-	-	-	-	-	5,011
Special assessments	6,400	2,829	-	-	-	-	9,229
Inventory	-	11,921	6,448	1,736	-	32,863	52,968
Prepaid items	205	198	47,974	13,744	-	-	62,121
Restricted assets:							
Cash and cash equivalents with fiscal agent	-	-	-	-	49,109	-	49,109
Total assets	<u>\$2,017,460</u>	<u>\$ 297,875</u>	<u>\$1,763,983</u>	<u>\$1,016,185</u>	<u>\$ 966,093</u>	<u>\$ 302,852</u>	<u>\$ 6,364,448</u>
Liabilities							
Accounts payable	\$ 1,958	\$ -	\$ 490	\$ 1,840	\$ 326,893	\$ 67	\$ 331,248
Accrued liabilities	7,838	7,165	41,281	30,064	-	-	86,348
Due to other governments	116	100	549	802	-	-	1,567
Total liabilities	<u>9,912</u>	<u>7,265</u>	<u>42,320</u>	<u>32,706</u>	<u>326,893</u>	<u>67</u>	<u>419,163</u>
Deferred Inflows of Resources							
Property taxes	606,977	-	1,373,158	776,715	-	45,804	2,802,654
Unavailable revenue	82,263	100,104	99,184	79,571	-	32,110	393,232
Total deferred inflows of resources	<u>689,240</u>	<u>100,104</u>	<u>1,472,342</u>	<u>856,286</u>	<u>-</u>	<u>77,914</u>	<u>3,195,886</u>
Fund Balances							
Nonspendable: Inventory and prepaids	205	12,119	54,422	15,480	938	32,863	116,027
Restricted for:							
Public safety	-	-	194,899	111,713	-	801	307,413
Transportation	-	178,387	-	-	49,109	189,615	417,111
Committed to:							
Transportation	-	-	-	-	-	1,592	1,592
Assigned to:							
General government	3,668	-	-	-	-	-	3,668
Future appropriations	59,731	-	-	-	-	-	59,731
Other capital projects	-	-	-	-	589,153	-	589,153
Unassigned	1,254,704	-	-	-	-	-	1,254,704
Total fund balances	<u>1,318,308</u>	<u>190,506</u>	<u>249,321</u>	<u>127,193</u>	<u>639,200</u>	<u>224,871</u>	<u>2,749,399</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$2,017,460</u>	<u>\$ 297,875</u>	<u>\$1,763,983</u>	<u>\$1,016,185</u>	<u>\$ 966,093</u>	<u>\$ 302,852</u>	<u>\$ 6,364,448</u>

See Notes to the Basic Financial Statements.

**City of Bellbrook
 Reconciliation of Total
 Governmental Fund Balances to Net
 Position of Governmental Activities
 December 31, 2016**

Total governmental fund balances \$ 2,749,399

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 7,469,141

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

Property taxes receivable	93,947
Accounts receivable	21,428
Intergovernmental receivable	362,575
Special assessment receivable	9,229

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

Compensated absences	(213,428)
Net pension liability	(5,037,651)
Deferred outflows-pensions	1,721,178
Deferred inflows-pension	(90,770)

Net position of governmental activities \$ 7,085,048

City of Bellbrook
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Street	Police	Fire	Capital Improvements	Non-major Governmental Funds	Total Governmental Funds
Revenues							
Local taxes	\$ 575,527	\$ -	\$ 1,303,862	\$ 737,033	\$ -	87,938	\$ 2,704,360
Intergovernmental revenues	184,752	298,360	206,809	116,915	58,535	44,241	909,612
Special assessments	1,680	2,902	-	-	-	-	4,582
Charges for services	25,599	1,000	16,430	130,933	-	2,344	176,306
Fines, licenses and permits	133,553	-	730	-	-	-	134,283
Investment income	34,657	-	-	-	-	-	34,657
Miscellaneous receipts	12,577	7,738	7,825	5,282	-	16	33,438
<i>Total revenues</i>	<u>968,345</u>	<u>310,000</u>	<u>1,535,656</u>	<u>990,163</u>	<u>58,535</u>	<u>134,539</u>	<u>3,997,238</u>
Expenditures							
Current:							
General government	367,758	-	-	-	-	4,467	372,225
Public safety	-	-	1,575,718	1,117,050	-	50,285	2,743,053
Community environment	87,070	-	-	-	-	-	87,070
Recreation	13,012	-	-	-	-	-	13,012
Transportation	-	286,147	-	-	-	54,465	340,612
Capital outlay	-	-	-	-	804,417	-	804,417
<i>Total expenditures</i>	<u>467,840</u>	<u>286,147</u>	<u>1,575,718</u>	<u>1,117,050</u>	<u>804,417</u>	<u>109,217</u>	<u>4,360,389</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>500,505</u>	<u>23,853</u>	<u>(40,062)</u>	<u>(126,887)</u>	<u>(745,882)</u>	<u>25,322</u>	<u>(363,151)</u>
Other financing sources (uses)							
Transfers in	-	-	100,000	100,000	250,000	-	450,000
Transfers out	(450,000)	-	-	-	-	-	(450,000)
Sale of capital assets	-	-	-	-	36,019	-	36,019
<i>Total other financing sources (uses)</i>	<u>(450,000)</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>286,019</u>	<u>-</u>	<u>36,019</u>
Net change in fund balances	50,505	23,853	59,938	(26,887)	(459,863)	25,322	(327,132)
Fund balances, beginning of year	<u>1,267,803</u>	<u>166,653</u>	<u>189,383</u>	<u>154,080</u>	<u>1,099,063</u>	<u>199,549</u>	<u>3,076,531</u>
Fund balances, end of year	<u>\$ 1,318,308</u>	<u>\$ 190,506</u>	<u>\$ 249,321</u>	<u>\$ 127,193</u>	<u>\$ 639,200</u>	<u>\$ 224,871</u>	<u>\$ 2,749,399</u>

See Notes to the Basic Financial Statements.

**City of Bellbrook
 Reconciliation of the Statement of Revenues,
 Expenditures and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2016**

Net change in fund balances - total governmental funds \$ (327,132)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	1,111,547
Current year depreciation	(523,904)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, trade-ins and donations) is to decrease net position. (5,292)

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

Property taxes	22,243
Charges for services	(9,280)
Intergovernmental revenue	108
Special assessments	(636)

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	(31,414)
Pensions	(618,374)

Change in net position of governmental activities	<u>\$ (382,134)</u>
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See Notes to the Basic Financial Statements.

City of Bellbrook
Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type Activities		
	Waste Collection	Water	Totals
Assets			
Current assets:			
Pooled cash and investments	\$ 240,985	\$ 1,740,357	\$ 1,981,342
Receivables (net):			
Accounts	-	311,251	311,251
Special assessments	-	2,129	2,129
Inventory	-	73,315	73,315
Prepaid items	2	17,032	17,034
Total current assets	<u>240,987</u>	<u>2,144,084</u>	<u>2,385,071</u>
Noncurrent assets:			
Capital assets:			
Non-depreciable capital assets	-	604,370	604,370
Depreciable capital assets, net	-	12,686,305	12,686,305
Total noncurrent assets	<u>-</u>	<u>13,290,675</u>	<u>13,290,675</u>
Total assets	<u>240,987</u>	<u>15,434,759</u>	<u>15,675,746</u>
Deferred Outflows of Resources			
Pensions	7,632	223,224	230,856
Total deferred outflows of resources	<u>7,632</u>	<u>223,224</u>	<u>230,856</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 32,283	\$ 92,297	\$ 124,580
Accrued liabilities	669	20,630	21,299
Compensated absences	908	27,368	28,276
Due to other governments	10	295	305
Current portion of OPWC loans	-	56,173	56,173
Current portion of general obligation bonds	-	65,000	65,000
Accrued interest payable	-	1,444	1,444
Unearned revenue	23,341	-	23,341
Total current liabilities	<u>57,211</u>	<u>263,207</u>	<u>320,418</u>
Noncurrent liabilities:			
General obligation bonds	-	295,000	295,000
OPWC loans	-	842,594	842,594
Net pension liability	20,730	614,586	635,316
Compensated absences	-	7,027	7,027
Total noncurrent liabilities	<u>20,730</u>	<u>1,759,207</u>	<u>1,779,937</u>
Total liabilities	<u>77,941</u>	<u>2,022,414</u>	<u>2,100,355</u>
Deferred Inflows of Resources			
Pensions	418	12,352	12,770
Total deferred inflows of resources	<u>418</u>	<u>12,352</u>	<u>12,770</u>
Net position			
Net investment in capital assets	-	12,031,908	12,031,908
Unrestricted	170,260	1,591,309	1,761,569
Total net position	<u>\$ 170,260</u>	<u>\$ 13,623,217</u>	<u>\$ 13,793,477</u>

See Notes to the Basic Financial Statements.

City of Bellbrook
Statement of Revenue, Expenses and Changes
In Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities		
	Waste Collection	Water	Totals
Operating revenues			
Charges for services	\$ 405,176	\$ 1,675,266	\$ 2,080,442
Other revenue	-	1,805	1,805
<i>Total operating revenues</i>	<u>405,176</u>	<u>1,677,071</u>	<u>2,082,247</u>
Operating expenses			
Personal services	23,399	707,512	730,911
Purchased services	389,270	309,474	698,744
Supplies and materials	-	126,944	126,944
Other expenses	13	6,906	6,919
Depreciation	6,257	391,605	397,862
<i>Total operating expenses</i>	<u>418,939</u>	<u>1,542,441</u>	<u>1,961,380</u>
Operating income (loss)	<u>(13,763)</u>	<u>134,630</u>	<u>120,867</u>
Nonoperating revenues (expenses)			
Intergovernmental revenues	-	2,308	2,308
Interest expense	-	(9,096)	(9,096)
Gain (loss) on disposal of assets	-	10,139	10,139
<i>Total nonoperating revenues (expenses)</i>	<u>-</u>	<u>3,351</u>	<u>3,351</u>
Income (loss) before contributions	(13,763)	137,981	124,218
Capital contributions	-	396,421	396,421
Change in net position	(13,763)	534,402	520,639
Net position - beginning	<u>184,023</u>	<u>13,088,815</u>	<u>13,272,838</u>
Net position - ending	<u>\$ 170,260</u>	<u>\$ 13,623,217</u>	<u>\$ 13,793,477</u>

See Notes to the Basic Financial Statements.

City of Bellbrook
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities		
	Waste Collection	Water	Total
Cash flows from operating activities:			
Cash received from customers	\$ 406,043	\$ 1,665,822	\$ 2,071,865
Cash paid to employees	(22,246)	(677,471)	(699,717)
Cash paid to suppliers of goods and services	(388,687)	(468,998)	(857,685)
Other receipts	-	1,805	1,805
Net cash provided (used) by operating activities	<u>(4,890)</u>	<u>521,158</u>	<u>516,268</u>
Cash flows from non-capital financing activities:			
Cash received from grants	-	2,308	2,308
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>2,308</u>	<u>2,308</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	(282,925)	(282,925)
Proceeds from sale of capital assets	-	10,139	10,139
Principal retirement on revenue bonds	-	(65,000)	(65,000)
Principal retirement on OPWC loans	-	(81,173)	(81,173)
Interest and fiscal charges	-	(9,312)	(9,312)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(428,271)</u>	<u>(428,271)</u>
Increase (decrease) in cash and cash equivalents	(4,890)	95,195	90,305
Cash and cash equivalents at beginning of year	<u>245,875</u>	<u>1,645,162</u>	<u>1,891,037</u>
Cash and cash equivalents at end of year	<u>\$ 240,985</u>	<u>\$ 1,740,357</u>	<u>\$ 1,981,342</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (13,763)	\$ 134,630	\$ 120,867
Adjustments			
Depreciation	6,257	391,605	397,862
(Increase) decrease in assets:			
Receivables	-	(9,444)	(9,444)
Prepaid items	-	4,572	4,572
Inventories	-	(31,813)	(31,813)
(Increase) decrease in deferred outflows of resources:			
Pension	(4,814)	(140,938)	(145,752)
Increase (decrease) in liabilities:			
Accounts payable	596	1,026	1,622
Accrued liabilities	(10)	643	633
Compensated absences	333	6,856	7,189
Due to other governments	(173)	(8,399)	(8,572)
Unearned revenue	867	-	867
Net pension liability	5,664	167,915	173,579
Increase (decrease) in deferred inflows of resources:			
Pension	153	4,505	4,658
Net cash provided (used) by operating activities	<u>\$ (4,890)</u>	<u>\$ 521,158</u>	<u>\$ 516,268</u>
Non-cash investing, capital and financing activities:			
Capital assets purchased on account	\$ -	\$ 85,918	\$ 85,918
Capital contributions from developers	\$ -	\$ 396,421	\$ 396,421

See Notes to the Basic Financial Statements.

City of Bellbrook
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
December 31, 2016

	<u>Agency Fund</u>
Assets	
Pooled cash and cash equivalents	\$ <u>19,397</u>
Total assets	\$ <u>19,397</u>
Liabilities	
Undistributed monies	\$ <u>19,397</u>
Total liabilities	\$ <u>19,397</u>

See Notes to the Basic Financial Statements.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bellbrook, Ohio (the "City") is a home rule municipal corporation under the laws of the State of Ohio and operates under its own Charter. The current Charter, which provides for a Council/Manager form of government, was adopted in 1971 and has subsequently been amended.

The City provides various services including police and fire protection, street maintenance, water utility service, planning, zoning and other general government services. Legislative power is vested in a seven-member council with separately elected Mayor serving a two-year term and six council members elected to four-year terms. The Council appoints the City Manager and Clerk of Council. The City Manager is Chief Executive Officer and the head of the administrative agencies of the City who appoints all department heads and employees.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are accountable. In addition, component units can be governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. No separate government units meet the criteria for inclusion as a component unit.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the primary government, except for its fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General fund – This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Street fund – This fund accounts for the portion of gasoline and motor vehicle license fees restricted for the maintenance of streets.

Police fund – This fund accounts for money received and expended for the Police department.

Fire fund – This fund accounts for money received and expended for the Fire department.

Capital improvement fund – This fund is used to account for the financial resources to be used for the acquisition or construction of various capital improvement projects.

The City reports the following major proprietary funds:

Water fund – This fund accounts for the operations of the water system to residential and commercial users in the service area.

Waste collection fund – This fund accounts for the provision of waste collection service to the residents and commercial users located within the City.

Additionally, the City reports the following fund type:

Agency fund – This fund accounts for assets held by the City as an agent (i.e. payroll withholdings and performance bonds).

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using a current financial resources measurement focus and are reported on a modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which, for the City's purposes, is considered to be 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues considered susceptible to accrual are property taxes, franchise fees, state-levied locally shared taxes, fines and forfeitures and fees. These revenues have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

Proprietary fund operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Pooled Cash and Investments

To improve cash management, cash received by the City except cash held by a fiscal agent, is pooled. Monies for all funds are maintained in this pool. Individual fund

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

integrity is maintained through the City's records. Each fund's interest in the pool is presented as "pooled cash and investments" on the financial statements.

Interest earnings are allocated to the General Fund except for funds derived from contract, trust agreement, grant terms or City policy which require crediting otherwise. Interest revenue credited to the General Fund during 2016 amounted to \$34,657, which includes \$25,542 assigned from other funds.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

All investments are stated at fair value, which are based on quoted market prices.

E. Inventories and Prepaid Items

Inventories are valued at cost on a first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During 2016, the City's capitalization threshold was \$5,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

All reported 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 Useful Life</u>
Land Improvements	10 - 15 years
Buildings & Improvements	50 years
Machinery & Equipment	5 - 20 years
Vehicles	5 - 20 years
Infrastructure	20 - 50 years
Utility Structures in Service	50 - 75 years

G. Compensated Absences

Employees of the City are granted vacation and sick leave in varying amounts. In the event of separation, an employee may be reimbursed for accumulated vacation and sick leave at varying rates.

Vested vacation and sick leave is recorded as an expense in the government-wide financial statements for the period in which such leave was earned. For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date.

H. Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

I. Fund Balance Classifications

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 resources in 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 are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. The nonspendable fund balances for the City includes materials and supplies inventory and prepaid items.

Restricted – The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. 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 formal action (ordinance) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the General Fund, assigned amounts

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

represent intended uses established by Council or a City official delegated that authority by City charter or ordinance. State statute authorizes the finance director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

J. Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the financial statements and reported revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position and proprietary statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statements of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

government-wide statement of net position and 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, intergovernmental grants and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statements of net position (see Note 7).

L. Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. 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.

2. POOLED CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as "Pooled cash and investments."

Deposits – At December 31, 2016, the bank balance of the City's cash deposits was \$596,541. As of December 31, 2016, \$253,313 of the City's bank balance was covered by the Federal Deposit Insurance Corporation (FDIC) and \$343,228 was exposed to custodial credit risk as described below.

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

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

to at least 105% of the carrying value of the deposits that are not FDIC insured. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of the Ohio Revised Code.

Investments – The Ohio Revised Code and the City’s investment policy authorize the City to invest in the State Treasury Asset Reserve of Ohio, certificates of deposit, repurchase agreements, United States treasury bills and notes, federal agency securities, bankers’ acceptances and commercial paper of the highest rating. The city’s investment policy applies to all funds and fund types. All deposits are made to authorized public depositories and contracts with such institutions are in accordance with the Ohio Revised Code and the City’s investment policy.

The City invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The State operates the pool in accordance with Ohio Revised Code Section 135.45. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2016.

The City’s investments in federal agency securities and U. S. Treasury obligations are valued using quoted market prices (Level 1 inputs). STAR Ohio has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, “Certain External Investment Pools and Pool Participants.” The City measures the investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

As of December 31, 2016, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	Investment Maturities (in Years)	
		<u>Less than 1</u>	<u>1-5</u>
Federal National Mortgage Association Bonds	\$423,440	\$ 0	\$423,440
Federal Farm Credit Bonds	208,003	0	208,003
Federal Home Loan Mortgage Corporation Bonds	583,473	175,069	408,404
Federal Home Loan Bank Bonds	420,220	200,019	220,201
Schwab Money Market	4,317	4,317	0
STAR Ohio	<u>2,668,443</u>	<u>2,668,443</u>	<u>0</u>
	\$4,307,896	\$3,047,848	\$1,260,048

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from fluctuating interest rates and in accordance with the Ohio Revised Code, the City's investment policy limits investment portfolio maturities to five years or less. The investment policy also requires sufficient liquidity to be maintained in the portfolio and that investments be scheduled to mature concurrently with ongoing cash requirements so that the City's obligations can be met without selling securities.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy for custodial credit risk beyond the requirements of the Ohio Revised Code.

Credit Risk: It is the City's policy to limit its investments that are not obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. As of December 31, 2016, the City's investment in STAR Ohio was rated AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2016:

<u>Investment Type</u>	<u>% of Total</u>
Federal National Mortgage Association Bonds	9.83%
Federal Farm Credit Bonds	4.83%
Federal Home Loan Mortgage Corporation Bonds	13.54%
Federal Home Loan Bank Bonds	9.75%
Schwab Money Market	0.10%
STAR Ohio	61.95%

Cash with Fiscal Agent - At year-end, the City had \$49,109 on deposit with the Greene County Treasurer for permissive funds collected, but not distributed yet to the City. The data regarding insurance and collateralization can be obtained from the Greene County Comprehensive Annual Financial Report for the year ended December 31, 2016. This amount is not included in the City's depository balance.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

3. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2016, consisted of the following, as reported in the fund financial statements:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 0	\$450,000
Police	100,000	0
Fire	100,000	0
Capital improvements	<u>250,000</u>	<u>0</u>
Total	<u>\$450,000</u>	<u>\$450,000</u>

The transfers from the General Fund are used to support the operating costs of the Police and Fire Funds and capital acquisitions in the Capital Improvements Fund.

4. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property taxes are levied each December 31st on the assessed value listed as of the prior December 31st. Assessed values are established for real property at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2015.

The property tax calendar is as follows:

Levy date	December 31, 2015
Lien date	December 31, 2015
First installment payment due	February 15, 2016
Second installment payment due	July 15, 2016

The Greene County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Bellbrook. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes may be paid on an annual or semi-annual basis.

The full tax rate for all City operations for the year ended December 31, 2016 was \$19.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

Real estate	\$164,265,930
Public utility tangible personal property	<u>3,853,250</u>
Total	<u>\$168,119,180</u>

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

<i>Governmental Activities</i>	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ <u>262,230</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>262,230</u>
Subtotal	<u>262,230</u>	<u>0</u>	<u>0</u>	<u>262,230</u>
<i>Capital assets being depreciated:</i>				
Land improvements	374,994	0	0	374,994
Buildings and improvements	3,072,002	0	0	3,072,002
Machinery and equipment	561,286	62,568	(63,628)	560,226
Vehicles	1,973,481	165,344	(181,812)	1,957,013
Infrastructure	<u>4,989,414</u>	<u>883,635</u>	<u>0</u>	<u>5,873,049</u>
Subtotal	<u>10,971,177</u>	<u>1,111,547</u>	<u>(245,440)</u>	<u>11,837,284</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(257,414)	(7,774)	0	(265,188)
Buildings and improvements	(1,200,304)	(64,937)	0	(1,265,241)
Machinery and equipment	(435,552)	(50,836)	178,489	(307,899)
Vehicles	(1,182,379)	(147,007)	61,659	(1,267,727)
Infrastructure	<u>(1,270,968)</u>	<u>(253,350)</u>	<u>0</u>	<u>(1,524,318)</u>
Subtotal	<u>(4,346,617)</u>	<u>(523,904)</u>	<u>240,148</u>	<u>(4,630,373)</u>
Net capital assets	<u>\$6,886,790</u>	<u>\$587,643</u>	<u>\$(5,292)</u>	<u>\$7,469,141</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 76,928
Public safety	176,373
Transportation	<u>270,603</u>
Total governmental activities depreciation expense	<u>\$523,904</u>

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

<i>Business-type Activities</i>	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ <u>604,370</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>604,370</u>
Subtotal	<u>604,370</u>	<u>0</u>	<u>0</u>	<u>604,370</u>
<i>Capital assets being depreciated:</i>				
Land improvements	39,433	8,121	(16,150)	31,404
Utility structures in service	14,894,192	396,421	0	15,290,613
Buildings and improvements	5,212,673	237,434	0	5,450,107
Machinery and equipment	443,135	9,571	(23,843)	428,863
Vehicles	<u>285,240</u>	<u>110,635</u>	<u>(27,098)</u>	<u>368,777</u>
Subtotal	<u>20,874,673</u>	<u>762,182</u>	<u>(67,091)</u>	<u>21,569,764</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(30,001)	(1,722)	16,150	(15,573)
Utility structures in service	(6,539,470)	(206,654)	0	(6,746,124)
Buildings and improvements	(1,550,267)	(126,752)	0	(1,677,019)
Machinery and equipment	(317,171)	(35,242)	23,843	(328,570)
Vehicles	<u>(115,779)</u>	<u>(27,492)</u>	<u>27,098</u>	<u>(116,173)</u>
Subtotal	<u>(8,552,688)</u>	<u>(397,862)</u>	<u>67,091</u>	<u>(8,883,459)</u>
Net capital assets	<u>\$12,926,355</u>	<u>\$364,320</u>	<u>\$ 0</u>	<u>\$13,290,675</u>

Depreciation was charged to business-type activities as follows:

Waste collection	\$ 6,257
Water	<u>391,605</u>
Total business-type activities depreciation expense	<u>\$397,862</u>

6. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. In 2004, the City joined the Miami Valley Risk Management Association, Inc. (MVRMA), a joint insurance pool. The pool consists of twenty municipalities who pool risk for property, crime, liability, boiler and machinery and public official liability.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

The City pays an annual premium to MVRMA for this coverage. The agreement provides that MVRMA will be self-sustaining through member premiums and the purchase of excess and stop-loss insurance. The deductible per occurrence for all types of claims is \$2,500. During 2016, MVRMA's per occurrence retention limit for property was \$250,000, with the exception of boiler and machinery for which there was a \$10,000 - \$350,000 per occurrence retention limit. Liability had a per occurrence retention limit of \$500,000. After the retention limits are reached, excess insurance will cover up to the limits stated below:

General liability	\$12,000,000 per occurrence
Automobile liability	\$12,000,000 per occurrence
Police professional liability	\$12,000,000 per occurrence
Public officials liability	\$12,000,000 per occurrence
Boiler and machinery	\$100,000,000 per occurrence
Property	\$1,000,000,000 per occurrence
Flood	\$25,000,000 per occurrence
Earthquake	\$25,000,000 per occurrence

There were no significant reductions in insurance coverage during the year in any category of risk. Settled claims did not exceed insurance coverage in each of the past three years.

The City is a member of a workers' compensation group rating plan, which allows local governments to group the experience of employers for workers compensation rating purposes. The City pays the State Workers' Compensation System a premium based on salaries paid.

Medical coverage is offered to employees through a self-funded insurance plan. The plan is offered to local governments state-wide through the Jefferson Health Plan (JHP) in Steubenville, Ohio and administered by United Healthcare of Ohio. The City participates in the plan and makes payment to the JHP based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). Effective August 1, 2015, a change was made to the by-laws which eliminates the liability for incurred but not reported claims.

7. DEFINED BENEFIT PENSION PLANS

Substantially all City employees are covered by one of two pension plans: the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F).

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

Net Pension Liability

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

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

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

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

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

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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):

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
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.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$120,371 for 2016. Of this amount, \$17,021 is reported as an accrued liabilities.

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF 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.

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

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

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

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	Police	Fire
2016 Statutory Maximum Contribution Rates		
Employer	19.50%	24.00%
Employee:		
January 1, 2016 through December 31, 2016	12.25%	12.25%
2016 Actual Contribution Rates		
Employer:		
Pension	19.00%	23.50%
Post-employment Health Care Benefits	0.50%	0.50%
Total Employer	<u>19.50%</u>	<u>24.00%</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$315,794 for 2016. Of this amount \$44,256 is reported as an accrued liabilities.

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

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$1,219,417	\$4,453,550	\$5,672,967
Proportion of the Net Pension Liability	0.007040%	0.0692290%	
Pension Expense	\$171,339	\$517,976	\$689,315

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

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on investments	\$322,212	\$640,495	\$962,707
Net change in proportionate share		553,162	553,162
City contributions subsequent to the measurement date	<u>120,371</u>	<u>315,794</u>	<u>436,165</u>
Total Deferred Outflows of Resources	<u>\$442,583</u>	<u>\$1,509,451</u>	<u>\$1,952,034</u>

Deferred Inflows of Resources

Differences between expected and actual experience	<u>\$ 24,509</u>	<u>\$ 79,031</u>	<u>\$103,540</u>
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\$436,167 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2017	\$ 68,885	\$ 337,028	\$ 405,913
2018	74,867	337,028	411,895
2019	82,262	337,028	419,290
2020	71,686	121,665	193,351
2021	0	(15,227)	(15,227)
2022	<u>0</u>	<u>(2,894)</u>	<u>(2,894)</u>
Total	<u>\$297,700</u>	<u>\$1,114,628</u>	<u>\$1,412,328</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, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

with the requirements of GASB 67. Key Methods and assumptions used in the latest actuarial valuations are presented below:

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

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, 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.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4% for 2015.

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

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.31%
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00%	5.27%

Discount Rate The discount rate used to measure the total pension liability 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 statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 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 (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$1,942,829	\$1,219,417	\$609,242

Changes between Measurement Date and Report Date In October 2016, the OPERS Board adopted certain assumptions which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

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

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

Valuation Date	January 1, 2015
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
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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 OPF's target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return **	30 Year Expected Real Rate of Return **
Cash and Cash Equivalents	0.00%		
Domestic Equity	16.00	6.50%	7.80%
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation Protected Securities *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u><u>120.00%</u></u>		

Note: Assumptions are geometric

* levered 2x

** Numbers are net of expected inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF'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.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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	\$5,873,636	\$4,453,550	\$3,250,598

8. OTHER POST EMPLOYMENT BENEFIT (OPEB)

In addition to the pension benefits described in Note 7, both the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F) provide post-retirement healthcare coverage which meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. For both systems, the Ohio Revised Code (ORC) permits, but does not mandate, OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in the ORC Chapter 145 for OPERS and Chapter 742 for OP&F.

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have twenty years or more of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

OPERS issue a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (800) 222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2016, local government employers contributed 14.00% of covered payroll. Active member contributions do not fund health care.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

Each year, the OPERS Board of Trustees determines the portion of the employer rate contribution 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 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The City's contributions allocated to fund post-employment benefits for the years ended December 31, 2016, 2015 and 2014 were \$20,053, \$19,345, and \$19,806 respectively, equal to the required contributions for the year.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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

Funding Policy - The Ohio Revised Code provides for contributions requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employees, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2016 through December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment benefits were \$7,741, \$7,266, and \$7,135 for the years ended December 31, 2016, 2015 and 2014 respectively, equal to the required contributions for the year.

9. LONG-TERM OBLIGATIONS

- A. During 2016, the following changes occurred in the governmental activities long-term obligations:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Due within One Year
<i>Governmental-type Activities:</i>					
Compensated Absences	\$ 182,014	\$ 213,428	\$(182,014)	\$ 213,428	\$179,594
Net Pension Liability:					
OPERS	424,515	159,586	0	584,101	0
OP&F	<u>3,593,567</u>	<u>859,983</u>	<u>0</u>	<u>4,453,550</u>	<u>0</u>
Total	<u>\$4,200,096</u>	<u>\$1,232,997</u>	<u>\$(182,014)</u>	<u>\$5,251,079</u>	<u>\$179,594</u>

The City pays obligations related to employee compensation from the fund benefitting from their service.

- B. During 2016, the following changes occurred in the business-type activities long-term obligations:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Due within One Year
<i>Business-type Activities:</i>					
<u>General obligation bonds</u>					
Waterworks system					
2012 2.00-2.65%	\$425,000	\$ 0	\$(65,000)	\$360,000	65,000
<u>Ohio Public Works Commission loan</u>					
Elevated water storage tank					
1995 0.00%	25,000	0	(25,000)	0	0
Water treatment plant improvements					
2010 0.00%	954,940	0	(56,173)	898,767	56,173
Compensated Absences	28,114	28,276	(21,087)	35,303	28,276

City of Bellbrook, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Net Pension Liability-
OPERS

Waste Collection	15,066	5,664	0	20,730	0
Water	446,671	167,915	0	614,586	0
Total	<u>\$1,894,791</u>	<u>\$201,855</u>	<u>\$(167,260)</u>	<u>\$1,929,386</u>	<u>\$149,449</u>

C. A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2016, follows:

Year Ending December 31,	General Obligation Bonds		OPWC Loans	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$65,000	\$8,013	\$56,173	\$0
2018	70,000	6,663	56,173	0
2019	75,000	4,969	56,173	0
2020	75,000	2,982	56,173	0
2021	75,000	994	56,173	0
2022-2026	0	0	280,865	0
2027-2031	0	0	280,865	0
2032	<u>0</u>	<u>0</u>	<u>56,172</u>	<u>0</u>
	<u>\$360,000</u>	<u>\$23,621</u>	<u>\$898,767</u>	<u>\$ 0</u>

D. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2016, the City's total debt margin was \$17,652,514 and the unvoted debt margin was \$9,246,555.

10. JOINTLY GOVERNED ORGANIZATIONS

A. Miami Valley Risk Management Association

The City is a member of the Miami Valley Risk Management Association (MVRMA) which is a jointly governed organization established as a joint insurance pool. As of December 31, 2016, MVRMA had twenty members. MVRMA covers all property, crime, liability, boiler and machinery and public liability insurance. MVRMA is intended to provide broad based coverage up to established limits with increased emphasis on safety and loss prevention.

MVRMA is a corporation governed by a twenty member board of trustees consisting of a representative appointed by each of the member cities. The board of trustees elects

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

the officers of the corporation with each trustee having a single vote. The board is responsible for its own financial matters and the corporation maintains its own book of account. Budgeting and financing of MVRMA is subject to the approval of the board. As of December 31, 2016, the member cities were: Beaver Creek, Bellbrook, Blue Ash, Centerville, Englewood, Indian Hill, Kettering, Madeira, Mason, Miamisburg, Montgomery, Piqua, Sidney, Springdale, Tipp City, Troy, Vandalia, West Carrollton, Wilmington and Wyoming.

Member contributions are calculated annually to produce a sufficient sum of money within the self-insurance pool to fund administrative expenses and to create adequate reserves for claims. The City has no explicit and measurable equity interest in MVRMA and no ongoing financial responsibility for MVRMA. The following is a summary of the MVRMA audited financial statements as of December 31, 2015 (most recent information available):

Assets and deferred outflow of resources	\$18,912,863
Liabilities and deferred inflow of resources	<u>8,326,970</u>
Net Position	\$10,583,893

B. Jefferson Health Plan

The City is a member of the Center for Local Government Benefits Pool (CLGBP) which is a member of the Jefferson Health Plan (JHP). JHP is a jointly governed organization established as a joint insurance pool. As of December 31, 2016, JHP had over 100 members. JHP provides medical, dental and prescription benefit coverage.

JHP is governed by a nine member board of trustees elected from all members. The board is responsible for the business and financial affairs of the JHP. Member contributions are calculated annually to produce a sufficient sum of money within the self-insurance pool to fund administrative expenses and to create adequate reserves for claims. The City has no explicit and measurable equity interest in JHP and no ongoing financial responsibility to JHP.

11. CONTINGENT LIABILITIES

The City receives significant financial assistance from numerous Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2016.

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

12. CHANGE IN ACCOUNTING PRINCIPLES

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

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes are incorporated into the City's 2016 financial statements; however, there was no effect on beginning net position or fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pension plans that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing for those pensions. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68. The implementation of this GASB Statement did not result in any changes to the City's financial statements.

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

GASB Statement No. 77 requires financial statement disclosures that will provide users with information concerning the reporting government's tax abatement programs – nature and magnitude – which will provide information on ability to raise resources and the impact abatement programs have on financial position of the government. The City has evaluated its abated tax revenues for the year and deemed the amount insignificant to the financial statements and therefore the required disclosures have not been included within these financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting

City of Bellbrook, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements that participate in those pools. The City participates in STAROhio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into its 2016 financial statements; however, there was no effect on beginning net position or fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position or fund balance.

Issued but Not Implemented Accounting Standard

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which will require the City to recognize on the face of the financial statements, its proportionate share of the net OPEB liability related to its participation in the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F). This Standard also enhances accountability and transparency through revised note disclosures and required supplementary information. The provisions of this Standard are required to be implemented for reporting periods beginning after June 15, 2017. The City has not early implemented GASB Statement No. 75 and is currently in the process of evaluating the impact this Standard will have on its financial statements; however, that effect is anticipated to be significant.

13. SIGNIFICANT OUTSTANDING ENCUMBRANCES

At December 31, 2016 the City had outstanding encumbrances of \$328,602 in the Capital Improvements Fund and \$99,812 in the Water Fund.

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

	2015	2014	2013
City's Proportion of the Net Pension Liability	0.007040%	0.007348%	0.007348%
City's Proportionate Share of the Net Pension Liability	\$ 1,219,417	\$ 886,251	\$ 866,233
City's Covered-Employee Payroll	\$ 967,708	\$ 990,742	\$ 1,157,285
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	126.01%	89.45%	74.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

Amounts presented as of the City's measurement date which is the prior fiscal year end.

⁽¹⁾ Information prior to 2013 is not available.

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

	2015	2014	2013
City's Proportion of the Net Pension Liability	0.069229%	0.069368%	0.069368%
City's Proportionate Share of the Net Pension Liability	\$ 4,453,550	\$ 3,593,567	\$ 3,378,453
City's Covered-Employee Payroll	\$ 1,436,377	\$ 1,410,189	\$ 1,236,558
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	310.05%	254.83%	273.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	72.20%	73.00%

Amounts presented as of the City's measurement date which is the prior fiscal year end.

⁽¹⁾ Information prior to 2013 is not available.

City of Bellbrook
Required Supplementary Information
Schedule of City's Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years ⁽¹⁾

	2016	2015	2014	2013
Contractually Required Contribution	\$ 120,371	\$ 116,125	\$ 118,889	\$ 150,447
Contributions in relation to the Contractually Required Contribution	<u>\$ (120,371)</u>	<u>\$ (116,125)</u>	<u>\$ (118,889)</u>	<u>\$ (150,447)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered-Employee Payroll	\$ 1,003,092	\$ 967,708	\$ 990,742	\$ 1,157,285
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

⁽¹⁾ Information prior to 2013 is not available.

City of Bellbrook
Required Supplementary Information
Schedule of City's Contributions
Ohio Police and Fire Pension Fund
Last Four Years ⁽¹⁾

	2016	2015	2014	2013
Contractually Required Contribution	\$ 315,794	\$ 296,912	\$ 290,039	\$ 210,891
Contributions in relation to the Contractually Required Contribution	<u>\$ (315,794)</u>	<u>\$ (296,912)</u>	<u>\$ (290,039)</u>	<u>\$ (210,891)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered-Employee Payroll	\$ 1,493,116	\$ 1,436,377	\$ 1,410,189	\$ 1,236,558
Contributions as a Percentage of Covered-Employee Payroll	21.15%	20.67%	20.57%	17.05%

⁽¹⁾ Information prior to 2013 is not available.

City of Bellbrook
Required Supplementary Information
Schedule of Revenue, Expenditures, & Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues:				
Local taxes	\$ 564,375	\$ 575,527	\$ 575,527	\$ -
Intergovernmental revenues	174,681	187,818	184,860	(2,958)
Charges for services	35,000	27,600	27,279	(321)
Fines, licenses, and permits	150,000	142,500	137,695	(4,805)
Interest earned	15,000	29,100	31,640	2,540
Miscellaneous and reimbursements	4,000	7,500	12,577	5,077
Total revenues	<u>943,056</u>	<u>970,045</u>	<u>969,578</u>	<u>(467)</u>
Expenditures:				
Current:				
General government	400,899	394,304	377,815	16,489
Public safety	12,000	-	-	-
Community environment	88,433	90,203	87,823	2,380
Recreation	17,019	16,019	13,045	2,974
Total expenditures	<u>518,351</u>	<u>500,526</u>	<u>478,683</u>	<u>21,843</u>
Excess (deficiency) of revenues over expenditures	424,705	469,519	490,895	21,376
Other financing sources (uses):				
Transfers (out)	<u>(450,000)</u>	<u>(450,000)</u>	<u>(450,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(450,000)</u>	<u>(450,000)</u>	<u>(450,000)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(25,295)	19,519	40,895	21,376
Fund balance at beginning of year	<u>1,240,190</u>	<u>1,240,190</u>	<u>1,240,190</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,214,895</u>	<u>\$ 1,259,709</u>	<u>\$ 1,281,085</u>	<u>\$ 21,376</u>

See Notes to the Required Supplementary Information.

City of Bellbrook
Required Supplementary Information
Schedule of Revenue, Expenditures, & Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis
Street Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental revenues	\$ 301,000	\$ 301,000	\$ 296,555	\$ (4,445)
Charges for services	3,500	3,500	3,902	402
Miscellaneous and reimbursements	<u>10,500</u>	<u>11,500</u>	<u>7,738</u>	<u>(3,762)</u>
Total revenues	315,000	316,000	308,195	(7,805)
Expenditures:				
Current:				
Transportation	<u>324,244</u>	<u>301,844</u>	<u>283,919</u>	<u>17,925</u>
Total expenditures	<u>324,244</u>	<u>301,844</u>	<u>283,919</u>	<u>17,925</u>
Excess (deficiency) of revenues over expenditures	(9,244)	14,156	24,276	10,120
Fund balance at beginning of year	<u>110,922</u>	<u>110,922</u>	<u>110,922</u>	<u>-</u>
Fund balance at end of year	<u>\$ 101,678</u>	<u>\$ 125,078</u>	<u>\$ 135,198</u>	<u>\$ 10,120</u>

See Notes to the Required Supplementary Information.

City of Bellbrook
Required Supplementary Information
Schedule of Revenue, Expenditures, & Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis
Police Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues:				
Local taxes	\$ 1,282,750	\$ 1,303,862	\$ 1,303,862	\$ -
Intergovernmental revenues	183,250	208,428	207,427	(1,001)
Charges for service	-	17,925	16,430	(1,495)
Miscellaneous and reimbursements	27,000	5,950	8,555	2,605
Total revenues	1,493,000	1,536,165	1,536,274	109
Expenditures:				
Current:				
Public safety	1,648,715	1,647,295	1,615,833	31,462
Total expenditures	1,648,715	1,647,295	1,615,833	31,462
Excess (deficiency) of revenues over expenditures	(155,715)	(111,130)	(79,559)	31,571
Other financing sources (uses):				
Transfers in	100,000	100,000	100,000	-
Total other financing sources (uses)	100,000	100,000	100,000	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(55,715)	(11,130)	20,441	31,571
Fund balance at beginning of year	216,628	216,628	216,628	-
Fund balance at end of year	\$ 160,913	\$ 205,498	\$ 237,069	\$ 31,571

See Notes to the Required Supplementary Information.

City of Bellbrook
Required Supplementary Information
Schedule of Revenue, Expenditures, & Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis
Fire Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues:				
Local taxes	\$ 728,000	\$ 737,033	\$ 737,033	\$ -
Intergovernmental revenues	104,000	118,415	116,915	(1,500)
Charges for services	105,000	125,000	130,622	5,622
Miscellaneous and reimbursements	<u>5,000</u>	<u>3,900</u>	<u>5,282</u>	<u>1,382</u>
Total revenues	942,000	984,348	989,852	5,504
Expenditures:				
Current:				
Public safety	<u>1,208,415</u>	<u>1,186,135</u>	<u>1,138,319</u>	<u>47,816</u>
Total expenditures	<u>1,208,415</u>	<u>1,186,135</u>	<u>1,138,319</u>	<u>47,816</u>
Excess (deficiency) of revenues over expenditures	(266,415)	(201,787)	(148,467)	53,320
Other financing sources (uses):				
Transfers in	<u>200,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total other financing sources (uses)	<u>200,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(66,415)	(101,787)	(48,467)	53,320
Fund balance at beginning of year	<u>171,307</u>	<u>171,307</u>	<u>171,307</u>	<u>-</u>
Fund balance at end of year	<u>\$ 104,892</u>	<u>\$ 69,520</u>	<u>\$ 122,840</u>	<u>\$ 53,320</u>

See Notes to the Required Supplementary Information.

City of Bellbrook, Ohio

Notes to the Required Supplementary Information For the Year Ended December 31, 2016

Budgets and Budgetary Accounting

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 ordinance, 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 ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council.

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

The appropriation ordinance 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 ordinance 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. Appropriations are legally required for each fund at the level of personal services or other expenses on a department level.

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budgetary (Non-GAAP Basis) presented for the general fund, street fund, police fund, and fire fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

- 1) Revenues are recorded when received in cash (budget) as opposed to when they are both measurable and available (GAAP).

City of Bellbrook, Ohio

Notes to the Required Supplementary Information For the Year Ended December 31, 2016

- 2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are recorded as the equivalent of expenditures (budget) as opposed to part of restricted, committed or assigned fund balance (GAAP).
- 4) Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

Reconciliation of Budget Basis to GAAP Basis

The adjustments necessary to convert the results of operations and fund balances at end of the year on the GAAP basis to the budget basis are as follows:

	General Fund	Street Fund	Police Fund	Fire Fund
GAAP basis	\$50,505	\$23,853	\$59,938	\$(26,887)
Net adjustment for revenue accruals	1,233	(1,805)	618	(311)
Net adjustment for expenditure accruals	(7,155)	2,228	(39,991)	(20,919)
Net adjustment for encumbrances	<u>(3,688)</u>	<u>0</u>	<u>(124)</u>	<u>(350)</u>
Budget basis	<u>\$40,895</u>	<u>\$24,276</u>	<u>\$20,441</u>	<u>\$(48,467)</u>

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Dave Yost • Auditor of State

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

City of Bellbrook
Greene County
15 East Franklin Street
Bellbrook, Ohio 45305

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bellbrook, Greene County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 2, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2017



Dave Yost • Auditor of State

CITY OF BELLBROOK

GREENE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 24, 2017**