

CITY OF BEDFORD HEIGHTS

CUYAHOGA COUNTY

Regular Audit

For the Year Ended December 31, 2020





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City Council
City of Bedford Heights
5661 Perkins Road
Bedford Heights, Ohio 44146

We have reviewed the *Independent Auditor's Report* of the City of Bedford Heights, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2020 through December 31, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Bedford Heights is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

November 22, 2022

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City of Bedford Heights
Cuyahoga County
For the Year Ended December 31, 2020

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Cuyahoga County
For the Year Ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

City of Bedford Heights
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146-2597

To the Members of 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 Bedford Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2020, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford Heights, Cuyahoga County, Ohio, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General, Fire Levy, and the Issue 24 Levy funds thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 22 to the financial statements, the financial impact of COVID-19 and ensuing emergency measures will impact subsequent periods of the City. As discussed in Note 3 to the financial statements, the City implemented Governmental Accounting Standards Board's (GASB) Statement No. 84, *Fiduciary Activities* and GASB 83, *Certain Asset Retirement Obligations*. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liability/asset, OPEB liabilities and pension and OPEB contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2022, 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. The purpose of that report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control 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 and compliance.



Charles E. Harris & Associates, Inc.
October 27, 2022

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

The discussion and analysis of the City of Bedford Heights' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2020. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2020 are as follows:

- ◆ For the year ended December 31, 2020, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities* and GASB Statement No. 83, *Certain Asset Retirement Obligations*. The implementation of these statements resulted in the restatement of net position as of December 31, 2019 for governmental activities, nonmajor governmental fund balance and total governmental fund balance. See Note 3 for additional information regarding the restatement.
- ◆ In 2020, the City received \$852,596 in COVID relief funding.
- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$17,316,441.
- ◆ Total assets increased by \$5,653,482 and deferred outflows of resources decreased by \$3,609,068 in 2020. The largest increase in total assets was cash and cash equivalents of \$5,453,156. The largest decrease for deferred outflows of resources related to pension activities.
- ◆ Total liabilities decreased by \$4,531,776 and deferred inflows of resources increased by \$3,700,340 in 2020. The main fluctuation in liabilities related to net pension liability, (down \$5,957,473). The increase in deferred inflows of resources was related primarily to pension activities.

Using this Annual Financial Report

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

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

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information on all the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

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

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Proprietary Funds

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

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

The basic proprietary fund financial statements can be found starting on page 28 of this report.

Notes to the Financial Statements

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

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

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

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

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

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Table 1 provides a summary of the City's net position for 2020 as compared to 2019.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | Restated | | | | Restated | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Assets: | | | | | | |
| Current and other assets | \$ 22,186,107 | \$ 17,623,219 | \$ 9,726,196 | \$ 8,755,697 | \$ 31,912,303 | \$ 26,378,916 |
| Capital assets, net | 14,632,940 | 14,879,004 | 6,888,868 | 6,524,983 | 21,521,808 | 21,403,987 |
| Net pension asset | <u>25,860</u> | <u>24,226</u> | <u>10,123</u> | <u>9,483</u> | <u>35,983</u> | <u>33,709</u> |
| Total assets | <u>36,844,907</u> | <u>32,526,449</u> | <u>16,625,187</u> | <u>15,290,163</u> | <u>53,470,094</u> | <u>47,816,612</u> |
| Deferred outflows of resources | | | | | | |
| Pension | 2,490,510 | 6,062,933 | 275,055 | 727,073 | 2,757,205 | 6,772,298 |
| OPEB | <u>1,649,749</u> | <u>1,335,515</u> | <u>186,542</u> | <u>96,978</u> | <u>1,833,996</u> | <u>1,427,971</u> |
| Total deferred outflows of resources | <u>4,140,259</u> | <u>7,398,448</u> | <u>461,597</u> | <u>824,051</u> | <u>4,591,201</u> | <u>8,200,269</u> |
| Liabilities: | | | | | | |
| Current liabilities | 2,222,777 | 936,424 | 122,312 | 133,782 | 2,345,089 | 1,070,206 |
| Long-term liabilities: | | | | | | |
| Due within one year | 860,699 | 995,853 | 124,717 | 133,866 | 985,416 | 1,129,719 |
| Other amounts due in more than one year | 1,806,379 | 1,765,553 | 427,184 | 441,121 | 2,233,563 | 2,206,674 |
| Net pension liability | 17,528,139 | 22,819,319 | 1,759,155 | 2,425,448 | 19,287,294 | 25,244,767 |
| Net OPEB liability | <u>4,905,328</u> | <u>4,696,616</u> | <u>1,171,939</u> | <u>1,112,423</u> | <u>6,077,267</u> | <u>5,809,039</u> |
| Total liabilities | <u>27,323,322</u> | <u>31,213,765</u> | <u>3,605,307</u> | <u>4,246,640</u> | <u>30,928,629</u> | <u>35,460,405</u> |
| Deferred inflows of resources: | | | | | | |
| Property taxes | 4,571,941 | 4,425,831 | - | - | 4,571,941 | 4,425,831 |
| Pension | 3,330,157 | 862,411 | 394,256 | 75,194 | 3,716,053 | 919,897 |
| OPEB | <u>1,346,190</u> | <u>746,499</u> | <u>184,336</u> | <u>28,180</u> | <u>1,528,231</u> | <u>770,157</u> |
| Total deferred inflows of resources | <u>9,248,288</u> | <u>6,034,741</u> | <u>578,592</u> | <u>103,374</u> | <u>9,816,225</u> | <u>6,115,885</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 13,429,560 | 14,203,236 | 6,634,544 | 6,524,983 | 20,064,104 | 20,728,219 |
| Restricted for: | | | | | | |
| Capital projects | 376,958 | 478,615 | - | - | 376,958 | 478,615 |
| Debt service | 230,551 | 235,645 | - | - | 230,551 | 235,645 |
| Streets | 437,513 | 371,501 | - | - | 437,513 | 371,501 |
| Public safety | 840,976 | 470,647 | - | - | 840,976 | 470,647 |
| Other purposes | 64,435 | 688 | - | - | 64,435 | 688 |
| Unrestricted | <u>(10,966,437)</u> | <u>(13,083,941)</u> | <u>6,268,341</u> | <u>5,239,217</u> | <u>(4,698,096)</u> | <u>(7,844,724)</u> |
| Total net position | <u>\$ 4,413,556</u> | <u>\$ 2,676,391</u> | <u>\$ 12,902,885</u> | <u>\$ 11,764,200</u> | <u>\$ 17,316,441</u> | <u>\$ 14,440,591</u> |

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

The City follows Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* and GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to pensions and other postemployment benefits (OPEB). 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/OPEB, the net pension/OPEB liability to the reported net position and subtracting deferred outflows related to pension/OPEB and the net pension asset.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension/OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension/OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension/OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension/OPEB 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/OPEB. GASB noted that the unfunded portion of this 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 these liabilities. In Ohio, the employee shares the obligation of funding 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 Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension/OPEB plans.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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/OPEB liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension/OPEB liability is satisfied, these liabilities are separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on the accrual basis of accounting include an annual pension/OPEB expense for their proportionate share of each plan's change in net pension/OPEB liability and net pension asset not accounted for as deferred inflows/outflows.

Total assets increased \$5,653,482. Cash and cash equivalents increased by \$5,453,156. The increase in cash and cash equivalents is the product of revenues outpacing expenditures in 2020.

The total net position of the City increased \$2,861,611. This increase was primarily due to increases in grants and entitlements, which increased due to COVIDI relief funding, and other income, which increased due to BWC refunds.

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

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

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

The net position of the business-type activities increased \$1,138,685 in 2020. The City generally can only use this net position to finance the continuing operations of the sewer system.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Table 2
Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Program revenues | | | | | | |
| Charges for services | \$ 1,559,757 | \$ 2,250,800 | \$ 4,501,316 | \$ 3,964,757 | \$ 6,061,073 | \$ 6,215,557 |
| Operating grants | 140,815 | 28,912 | - | - | 140,815 | 28,912 |
| Capital grants | <u>64,648</u> | <u>154,387</u> | <u>10,000</u> | <u>6,700</u> | <u>74,648</u> | <u>161,087</u> |
| Total program revenues | <u>1,765,220</u> | <u>2,434,099</u> | <u>4,511,316</u> | <u>3,971,457</u> | <u>6,276,536</u> | <u>6,405,556</u> |
| General revenues | | | | | | |
| Property taxes | 4,839,229 | 4,784,730 | - | - | 4,839,229 | 4,784,730 |
| Income taxes | 9,987,196 | 10,324,697 | - | - | 9,987,196 | 10,324,697 |
| Grants and entitlements | 2,155,486 | 1,361,965 | - | - | 2,155,486 | 1,361,965 |
| Investment earnings | 4,667 | 14,923 | 2,464 | 6,797 | 7,131 | 21,720 |
| Other and gain on sale of capital assets | <u>914,622</u> | <u>29,416</u> | <u>-</u> | <u>-</u> | <u>914,622</u> | <u>29,416</u> |
| Total revenues | <u>19,666,420</u> | <u>18,949,830</u> | <u>4,513,780</u> | <u>3,978,254</u> | <u>24,180,200</u> | <u>22,928,084</u> |
| Program expenses | | | | | | |
| General government | 4,203,928 | 4,561,377 | - | - | 4,203,928 | 4,561,377 |
| Security of persons and property | 9,811,263 | 718,976 | - | - | 9,811,263 | 718,976 |
| Public health and welfare | 184,181 | 246,748 | - | - | 184,181 | 246,748 |
| Leisure time activities | 1,076,715 | 1,736,278 | - | - | 1,076,715 | 1,736,278 |
| Community development | 332,079 | 352,714 | - | - | 332,079 | 352,714 |
| Basic utility services | 776,917 | 737,125 | - | - | 776,917 | 737,125 |
| Transportation | 1,516,082 | 1,563,194 | - | - | 1,516,082 | 1,563,194 |
| Interest and fiscal charges | 14,259 | 1,966 | - | - | 14,259 | 1,966 |
| Sewer | <u>-</u> | <u>-</u> | <u>3,403,165</u> | <u>3,390,279</u> | <u>3,403,165</u> | <u>3,390,279</u> |
| Total program expenses | <u>17,915,424</u> | <u>9,918,378</u> | <u>3,403,165</u> | <u>3,390,279</u> | <u>21,318,589</u> | <u>13,308,657</u> |
| Change in net position before transfers | 1,750,996 | 9,031,452 | 1,110,615 | 587,975 | 2,861,611 | 9,619,427 |
| Transfers | <u>(28,070)</u> | <u>-</u> | <u>28,070</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 1,722,926 | 9,031,452 | 1,138,685 | 587,975 | 2,861,611 | 9,619,427 |
| Net position, beginning of year | 2,676,391 | (6,320,061) | 11,764,200 | 11,176,225 | 14,440,591 | 4,856,164 |
| Cumulative effect of implementation of GASB's (see Note 3) | <u>14,239</u> | <u>(35,000)</u> | <u>-</u> | <u>-</u> | <u>14,239</u> | <u>(35,000)</u> |
| Net position, beginning of year, restated | <u>2,690,630</u> | <u>(6,355,061)</u> | <u>11,764,200</u> | <u>11,176,225</u> | <u>14,454,830</u> | <u>4,821,164</u> |
| Net position, end of year | \$ <u>4,413,556</u> | \$ <u>2,676,391</u> | \$ <u>12,902,885</u> | \$ <u>11,764,200</u> | \$ <u>17,316,441</u> | \$ <u>14,440,591</u> |

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Governmental Activities

Several revenue sources fund our governmental activities with the City's property and income tax being the largest contributors. The City's income tax revenue source is the largest contributor with a rate of 2% on gross income which has not changed since 1982. Residents of the City who work in another community and pay the withholding tax for that community receive a 100% tax credit on their City tax, up to a limit of 2%. During 2020, the revenues generated from this tax amounted to \$9,987,196. The City continues to enforce a delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Charges for services decreased in the current year as the pandemic limited activities/availability of programs at the community center. The City also saw a decrease in reimbursements from the County related to Columbus Road which also contributed to the decreased in charges for services. In the current year grants and entitlement increased as the City received COVID relief fund of \$852,596 while other income also increased as the City received BWC refunds.

Expenses for the City increased due to the increase of security of persons and property. Security of persons and property increased \$9,092,287 from the prior year. This increase was due change in benefit terms related to OP&F in the prior year that caused a significant reduction in security of persons and property expense in 2019.

Leisure time activities expenses decreased in the current year as the pandemic limited activities and programs at the community center.

As of December 31, 2020 the fire department is comprised of 24 members. There is one fire chief, one assistant fire chief, three captains, three lieutenants, and 16 firefighters. While 22 members of the department are certified paramedics, there is one firefighter who serves as an Emergency Medical Technician, in accordance with the collective bargaining agreement. The department's roster is intended to not be less than 18 paramedics, which allows for the response of two ambulances that can provide advance lifesaving skills.

Three members of the department are on the regional hazardous material response team and one is a HCO (Hazardous Command Officer). The staffing of the department is done in three shifts that rotate 24 hour tours. During this time, they conduct daily training that consists of building walkthroughs, attending continuing education classes, performing joint exercises with neighboring departments and watching training videos. After large or difficult emergencies, the shifts do a post incident critique to improve services. In 2020, the department responded to 2,652 calls with 76% relating to emergency medical services.

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

The amount the department spent on overtime expenses during 2020 was \$72,856 as compared to \$83,186 during 2019. The total cost of operating the Fire and EMS department during 2020 was \$2,755,440, which is in the Fire Levy Fund. The City annually transfers into the Fire Levy Fund the difference between the revenue generated from the 3 mill fire levy and the operating expenses incurred. In 2020, the transfer from the general fund was \$1,987,500.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

The City spent approximately \$528,000 on its annual road program entailing major and minor resurfacing of the various streets in Bedford Heights. The annual road program is funded from the 2-mill Street Construction Levy.

Business-Type Activities

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$1,138,685. Net program revenues exceeded program expenses in the amount of \$1,108,151 for the sewer operations during 2020 as charges for services continue to outpace operating expenditures.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$23,961,595 and expenditures and other financing uses of \$20,716,166. The net change in fund balance for the year in the City's most significant fund, the general fund, showed an increase in fund balance of \$2,979,060 which resulted in a year-end fund balance of \$8,573,389.

The capital improvements fund reflected a decrease in fund balance of \$572,639, which resulted in a fund balance of \$1,386,210 as intergovernmental and other income decreased in the current year. The fire levy fund and issue 24 levy fund ending fund balance increased \$174,244 and \$252,075, respectively, during 2020. The nonmajor government funds ending fund balance increased \$412,689, during the year.

Overall the revenue base continued to meet City obligations. To combat the uncertain economic times, the City has taken cost-cutting measures to ensure its viability for many years to come.

General Fund Budgeting Highlights

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

For the general fund, final budget-basis revenue and other financing sources of \$12,863,431 decreased from the original budget estimates of \$12,946,259. The original appropriations for the general fund were \$13,764,022, including other financing uses. The final appropriations, including other financing uses, were \$13,681,194. The City historically budgets to expend nearly 100% of their available resources, when actually 82% of available resources were budgeted to be expended in 2020. The City's actual revenues ended \$966,523 above the final budgeted amount due to an increase in other revenues.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

The City's ending unobligated budgetary fund balance was \$3,475,616 higher than the final budgeted amount mostly due lower than expected transfers out.

Business-Type Funds

The City's major enterprise fund consists of the sewer treatment fund. The basic financial statements for the major fund are included in this report. Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer treatment fund. The basic proprietary fund financial statements can be found on pages 28 through 31 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of 2020, the City had \$21,521,808 invested in land, buildings and improvements, furniture, fixtures and equipment, vehicles, and infrastructure.

Table 3 shows 2020 balances of capital assets as compared to 2019:

Table 3
 Capital Assets at December 31

| | Governmental Activities | | Business-Type Activities | | Totals | |
|-----------------------------------|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Land | \$ 2,231,201 | \$ 2,231,201 | \$ 99,200 | \$ 99,200 | \$ 2,330,401 | \$ 2,330,401 |
| Construction in progress | 1,166,724 | 265,028 | 295,438 | - | 1,462,162 | 265,028 |
| Buildings and improvements | 20,482,938 | 20,487,999 | 5,008,277 | 5,008,277 | 25,491,215 | 25,496,276 |
| Furniture, fixtures and equipment | 6,370,940 | 6,292,372 | 7,853,426 | 7,832,514 | 14,224,366 | 14,124,886 |
| Vehicles | 3,582,258 | 3,554,053 | 827,657 | 394,144 | 4,409,915 | 3,948,197 |
| Infrastructure | 15,873,900 | 15,817,656 | 7,142,403 | 7,142,403 | 23,016,303 | 22,960,059 |
| Less: accumulated depreciation | <u>(35,075,021)</u> | <u>(33,769,305)</u> | <u>(14,337,533)</u> | <u>(13,951,555)</u> | <u>(49,412,554)</u> | <u>(47,720,860)</u> |
| Total Capital Assets | \$ <u>14,632,940</u> | \$ <u>14,879,004</u> | \$ <u>6,888,868</u> | \$ <u>6,524,983</u> | \$ <u>21,521,808</u> | \$ <u>21,403,987</u> |

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition insofar as financial resources allow. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame (5 to 6 years).

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

City of Bedford Heights
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For the Year Ended December 31, 2020

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

Debt

At December 31, 2020, the City had \$28,741,116 in outstanding debt, compensated absences, matured compensated absences, asset retirement obligations and net pension/OPEB liability. Table 4 summarizes the outstanding obligations of the City.

Table 4
 Outstanding Debt at Year End

| | Governmental | | Business-Type | | Totals | |
|------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| | Activities | | Activities | | | |
| | 2020 | Restated 2019 | 2020 | 2019 | 2020 | Restated 2019 |
| Capital leases payable | \$ 2,653 | \$ 3,530 | \$ - | \$ - | \$ 2,653 | \$ 3,530 |
| OPWC loans payable | 512,008 | 532,895 | 254,324 | 258,866 | 766,332 | 791,761 |
| Compensated absences | 2,117,417 | 2,045,496 | 297,577 | 316,121 | 2,414,994 | 2,361,617 |
| Asset retirement obligations | 35,000 | 35,000 | - | - | 35,000 | 35,000 |
| Net pension liability | 17,528,139 | 22,819,319 | 1,759,155 | 2,425,448 | 19,287,294 | 25,244,767 |
| Net OPEB liability | 4,905,328 | 4,696,616 | 1,171,939 | 1,112,423 | 6,077,267 | 5,809,039 |
| <i>Total</i> | <u>\$ 25,100,545</u> | <u>\$ 30,132,856</u> | <u>\$ 3,482,995</u> | <u>\$ 4,112,858</u> | <u>\$ 28,583,540</u> | <u>\$ 34,245,714</u> |

More detailed information about the City's long-term liabilities is presented in Notes 10 through 15 and Note 20 of the basic financial statements.

Current Related Financial Activities

In November 2010, the citizens of Bedford Heights approved a Charter Amendment to establish a levy of 8.9 mills to be used to pay the costs and expenses of operating the City's police, fire and emergency medical services, commencing in 2010 and first collections beginning in 2011. The levy of 8.9 mills, known as Issue 24 on the November 2, 2010 ballot, was passed by 69.9% of the voters. The real estate tax revenue from the Issue 24 levy for fiscal year 2019 amounted to \$1,918,058. The real estate tax revenue from the Issue 24 levy for fiscal year 2020 amounted to \$1,937,598, which represented a \$19,540 increase over the previous year. Based on estimates provided by the Cuyahoga County Auditor's office, real property tax revenue from the Issue 24 levy for fiscal year 2021 is estimated to be \$2,021,972.

City of Bedford Heights
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Despite the uncertainties caused by COVID-19, with respect to second half real estate tax revenue, the City of Bedford Heights' systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Bedford Heights with full disclosure of the financial position of the City.

Contacting the City of Bedford Heights' Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact the finance department, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, telephone (440) 786-3223.

City of Bedford Heights, Ohio

Statement of Net Position

December 31, 2020

| | Primary Government | | Total* |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | |
| Assets: | | | |
| Cash and cash equivalents | \$ 13,048,551 | \$ 8,479,942 | \$ 21,528,493 |
| Accounts receivable | 99,327 | 1,147,790 | 1,247,117 |
| Intergovernmental receivable | 725,824 | 1,277 | 727,101 |
| Supplies and materials inventory | 94,893 | 26,874 | 121,767 |
| Prepaid assets | 192,267 | 70,313 | 262,580 |
| Property taxes receivable | 5,229,569 | - | 5,229,569 |
| Income taxes receivable | 2,795,676 | - | 2,795,676 |
| Non-depreciable capital assets | 3,397,925 | 394,638 | 3,792,563 |
| Depreciable assets, net | 11,235,015 | 6,494,230 | 17,729,245 |
| Net pension asset | 25,860 | 10,123 | 35,983 |
| Total assets | 36,844,907 | 16,625,187 | 53,470,094 |
| Deferred outflows of resources: | | | |
| Pension | 2,490,510 | 275,055 | 2,757,205 |
| OPEB | 1,649,749 | 186,542 | 1,833,996 |
| Total deferred outflows of resources | 4,140,259 | 461,597 | 4,591,201 |
| Liabilities: | | | |
| Accounts payable | 569,768 | 85,589 | 655,357 |
| Accrued wages and benefits | 223,725 | 36,723 | 260,448 |
| Accrued interest payable | 2,500 | - | 2,500 |
| Notes payable | 1,006,450 | - | 1,006,450 |
| Unearned revenues | 207,458 | - | 207,458 |
| Retainage payable | 55,300 | - | 55,300 |
| Claims payable | 157,576 | - | 157,576 |
| Long term liabilities: | | | |
| Due within one year | 860,699 | 124,717 | 985,416 |
| Due in more than one year: | | | |
| Other amounts due in more than one year | 1,806,379 | 427,184 | 2,233,563 |
| Net pension liability | 17,528,139 | 1,759,155 | 19,287,294 |
| Net OPEB liability | 4,905,328 | 1,171,939 | 6,077,267 |
| Total liabilities | 27,323,322 | 3,605,307 | 30,928,629 |
| Deferred inflows of resources: | | | |
| Property taxes | 4,571,941 | - | 4,571,941 |
| Pensions | 3,330,157 | 394,256 | 3,716,053 |
| OPEB | 1,346,190 | 184,336 | 1,528,231 |
| Total deferred inflows of resources | 9,248,288 | 578,592 | 9,816,225 |
| Net position: | | | |
| Net investment in capital assets | 13,429,560 | 6,634,544 | 20,064,104 |
| Restricted for: | | | |
| Capital projects | 376,958 | - | 376,958 |
| Debt service | 230,551 | - | 230,551 |
| Streets | 437,513 | - | 437,513 |
| Public safety | 840,976 | - | 840,976 |
| Other purposes | 64,435 | - | 64,435 |
| Unrestricted (deficit) | (10,966,437) | 6,268,341 | (4,698,096) |
| Total net position | \$ 4,413,556 | \$ 12,902,885 | \$ 17,316,441 |

*After deferred outflows and inflows of resources related to change in internal proportionate share of the pension and OPEB related items have been eliminated

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Statement of Activities

For the Year Ended December 31, 2020

| | Expenses | Program Revenues | | |
|----------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government | \$ 4,203,928 | \$ 555,290 | \$ - | \$ 64,648 |
| Security of persons and property | 9,811,263 | 468,244 | 140,815 | - |
| Public health and welfare | 184,181 | 8,827 | - | - |
| Leisure time activities | 1,076,715 | 118,945 | - | - |
| Community development | 332,079 | 403,451 | - | - |
| Basic utility services | 776,917 | 5,000 | - | - |
| Transportation | 1,516,082 | - | - | - |
| Interest and fiscal charges | 14,259 | - | - | - |
| Total governmental activities | <u>17,915,424</u> | <u>1,559,757</u> | <u>140,815</u> | <u>64,648</u> |
| Business-type activities: | | | | |
| Sewer | <u>3,403,165</u> | <u>4,501,316</u> | <u>-</u> | <u>10,000</u> |
| Total | <u>\$ 21,318,589</u> | <u>\$ 6,061,073</u> | <u>\$ 140,815</u> | <u>\$ 74,648</u> |

General revenues:

Property taxes and other local taxes levied for:

 General purposes

 Special revenues

 Capital projects

Income taxes levied for:

 General purposes

Grant and entitlements not restricted to specific programs

Investment income

Other

Total general revenues

Transfers

Change in net position

Net position, beginning of year, restated (see Note 3)

Net position, end of year

The accompanying notes are an integral part of these financial statements

| Net (Expense) Revenues and Changes in Net Position | | |
|---|-----------------------------|----------------------|
| Primary Government | | |
| Governmental Activities | Business-Type Activities | Total |
| \$ (3,583,990) | \$ - | \$ (3,583,990) |
| (9,202,204) | - | (9,202,204) |
| (175,354) | - | (175,354) |
| (957,770) | - | (957,770) |
| 71,372 | - | 71,372 |
| (771,917) | - | (771,917) |
| (1,516,082) | - | (1,516,082) |
| (14,259) | - | (14,259) |
| <u>(16,150,204)</u> | <u>-</u> | <u>(16,150,204)</u> |
| - | 1,108,151 | 1,108,151 |
| <u>(16,150,204)</u> | <u>1,108,151</u> | <u>(15,042,053)</u> |
| 1,644,074 | - | 1,644,074 |
| 2,754,443 | - | 2,754,443 |
| 440,712 | - | 440,712 |
| 9,987,196 | - | 9,987,196 |
| 2,155,486 | - | 2,155,486 |
| 4,667 | 2,464 | 7,131 |
| 914,622 | - | 914,622 |
| <u>17,901,200</u> | <u>2,464</u> | <u>17,903,664</u> |
| <u>(28,070)</u> | <u>28,070</u> | <u>-</u> |
| 1,722,926 | 1,138,685 | 2,861,611 |
| <u>2,690,630</u> | <u>11,764,200</u> | <u>14,454,830</u> |
| <u>\$ 4,413,556</u> | <u>\$ 12,902,885</u> | <u>\$ 17,316,441</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Balance Sheet – Governmental Funds

December 31, 2020

| | General | Fire Levy | Issue 24 Levy |
|---|----------------------|---------------------|---------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 6,994,020 | \$ 381,886 | \$ 531,301 |
| Accounts receivable | 2,055 | - | - |
| Intergovernmental receivable | 247,308 | 30,349 | 81,984 |
| Supplies and materials inventory | 4,296 | - | - |
| Prepaid assets | 105,877 | 37,167 | 43,762 |
| Property taxes receivable | 1,767,070 | 716,379 | 2,125,259 |
| Income taxes receivable | 2,795,676 | - | - |
| Total assets | \$ 11,916,302 | \$ 1,165,781 | \$ 2,782,306 |
| Liabilities: | | | |
| Accounts payable | \$ 196,937 | \$ - | \$ 10,260 |
| Accrued wages and benefits | 68,540 | 26,196 | 29,459 |
| Accrued interest payable | - | - | - |
| Notes payable | - | - | - |
| Unearned revenues | - | - | - |
| Retainage payable | - | - | - |
| Total liabilities | 265,477 | 26,196 | 39,719 |
| Deferred inflows of resources: | | | |
| Property taxes | 1,544,858 | 626,293 | 1,858,004 |
| Unavailable revenue | 1,532,578 | 117,721 | 349,239 |
| Total deferred inflows of resources | 3,077,436 | 744,014 | 2,207,243 |
| Fund balances: | | | |
| Nonspendable | 116,009 | 37,167 | 43,762 |
| Restricted | 251,985 | 358,404 | 491,582 |
| Committed | 401,773 | - | - |
| Assigned | 820,256 | - | - |
| Unassigned | 6,983,366 | - | - |
| Total fund balances | 8,573,389 | 395,571 | 535,344 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 11,916,302 | \$ 1,165,781 | \$ 2,782,306 |

The accompanying notes are an integral part of these financial statements

| <u>Capital Improvements</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------|--|---|
| \$ 2,646,706 | \$ 2,175,890 | \$ 12,729,803 |
| 5,939 | 91,333 | 99,327 |
| 18,423 | 344,638 | 722,702 |
| - | 90,597 | 94,893 |
| - | 5,461 | 192,267 |
| 477,587 | 143,274 | 5,229,569 |
| - | - | 2,795,676 |
| <u>3,148,655</u> | <u>2,851,193</u> | <u>21,864,237</u> |
| \$ 208,635 | \$ 139,450 | \$ 555,282 |
| - | 99,530 | 223,725 |
| 2,500 | - | 2,500 |
| 1,000,000 | 6,450 | 1,006,450 |
| - | 207,458 | 207,458 |
| 55,300 | - | 55,300 |
| <u>1,266,435</u> | <u>452,888</u> | <u>2,050,715</u> |
| 417,530 | 125,256 | 4,571,941 |
| 78,480 | 302,938 | 2,380,956 |
| <u>496,010</u> | <u>428,194</u> | <u>6,952,897</u> |
| - | 96,058 | 292,996 |
| 298,478 | 1,272,594 | 2,673,043 |
| 1,087,732 | 601,459 | 2,090,964 |
| - | - | 820,256 |
| - | - | 6,983,366 |
| <u>1,386,210</u> | <u>1,970,111</u> | <u>12,860,625</u> |
| <u>3,148,655</u> | <u>2,851,193</u> | <u>21,864,237</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

December 31, 2020

| | | | |
|---|----|---------------------|-------------------------|
| Total governmental funds balances | \$ | 12,860,625 | |
| <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i> | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | 14,632,940 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows of resources in the funds. | | | |
| Property and other taxes | \$ | 657,628 | |
| Municipal income taxes | | 1,135,028 | |
| Charges for services | | 60,850 | |
| Intergovernmental | | 527,450 | |
| Total | | <u>2,380,956</u> | 2,380,956 |
| Internal service funds are used by management to charge the costs of certain activities, such as Worker's Compensation Insurance and Health Insurance that are not reported in the Governmental Funds. The assets and liabilities of the Internal Service Fund are reported with Governmental Activities. | | | 149,808 |
| Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds. | | | |
| Asset retirement obligations | | (35,000) | |
| OPWC loans payable | | (512,008) | |
| Capital lease payable | | (2,653) | |
| Compensated absences | | (2,117,417) | |
| Total | | <u>(2,667,078)</u> | (2,667,078) |
| The net pension asset/liability is not due in the current period; therefore, the asset/liability and related deferred outflows/inflows are not reported in the funds. | | | |
| Net pension asset | | 25,860 | |
| Deferred outflows of resources | | 2,490,510 | |
| Net pension liability | | (17,528,139) | |
| Deferred inflows of resources | | (3,330,157) | |
| Total | | <u>(18,341,926)</u> | (18,341,926) |
| The net OPEB asset/liability is not due in the current period; therefore, the asset/liability and related deferred outflows/inflows are not reported in the funds. | | | |
| Deferred outflows of resources | | 1,649,749 | |
| Net OPEB liability | | (4,905,328) | |
| Deferred inflows of resources | | (1,346,190) | |
| Total | | <u>(4,601,769)</u> | (4,601,769) |
| <i>Net position of governmental activities</i> | \$ | | <u><u>4,413,556</u></u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

| | General | Fire Levy | Issue 24 Levy |
|---|---------------------|--------------------|--------------------|
| Revenues: | | | |
| Property taxes | \$ 1,624,485 | \$ 653,122 | \$ 1,937,598 |
| Municipal income taxes | 9,863,283 | - | - |
| Intergovernmental | 459,059 | 56,741 | 306,748 |
| Charges for services | 132,167 | - | - |
| Licenses and permits | 300,916 | - | - |
| Fines and forfeitures | 180,324 | - | - |
| Investment income | 3,731 | - | - |
| Other | 1,233,036 | 232,321 | 19,846 |
| | <u>13,797,001</u> | <u>942,184</u> | <u>2,264,192</u> |
| Total revenues | | | |
| Expenditures: | | | |
| Current operations and maintenance: | | | |
| Security of persons and property | 809,067 | 2,755,440 | 3,399,500 |
| Public health and welfare | 183,936 | - | - |
| Leisure time activities | 634,979 | - | - |
| Community development | 299,116 | - | - |
| Basic utility services | 726,544 | - | - |
| Transportation | 5,242 | - | - |
| General government | 3,903,557 | - | - |
| Capital outlay | - | - | - |
| Debt service: | | | |
| Principal retirement | - | - | 877 |
| Interest and fiscal charges | - | - | 215 |
| | <u>6,562,441</u> | <u>2,755,440</u> | <u>3,400,592</u> |
| Total expenditures | | | |
| Excess of revenues over (under) expenditures | <u>7,234,560</u> | <u>(1,813,256)</u> | <u>(1,136,400)</u> |
| Other financing sources (uses): | | | |
| Transfers – in | - | 1,987,500 | 1,385,000 |
| Transfers – out | (4,255,500) | - | - |
| Sale of assets | - | - | 3,475 |
| | <u>(4,255,500)</u> | <u>1,987,500</u> | <u>1,388,475</u> |
| Total other financing sources (uses) | | | |
| Net change in fund balances | 2,979,060 | 174,244 | 252,075 |
| Fund balances, beginning of year, restated (see Note 3) | <u>5,594,329</u> | <u>221,327</u> | <u>283,269</u> |
| Fund balances, end of year | <u>\$ 8,573,389</u> | <u>\$ 395,571</u> | <u>\$ 535,344</u> |

The accompanying notes are an integral part of these financial statements

| Capital Improvements | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------|-----------------------------------|--------------------------------|
| \$ 435,417 | \$ 130,632 | \$ 4,781,254 |
| - | - | 9,863,283 |
| 37,290 | 1,486,359 | 2,346,197 |
| - | 336,226 | 468,393 |
| 142,898 | 34,535 | 478,349 |
| - | 2,163 | 182,487 |
| 896 | - | 4,627 |
| <u>23,235</u> | <u>69,592</u> | <u>1,578,030</u> |
| <u>639,736</u> | <u>2,059,507</u> | <u>19,702,620</u> |
| 6,285 | 1,661,883 | 8,632,175 |
| - | - | 183,936 |
| 568,883 | 15,400 | 1,219,262 |
| - | - | 299,116 |
| - | 8,565 | 735,109 |
| - | 776,573 | 781,815 |
| 52,647 | 5,853 | 3,962,057 |
| 611,173 | - | 611,173 |
| 20,887 | - | 21,764 |
| <u>2,500</u> | <u>11,544</u> | <u>14,259</u> |
| <u>1,262,375</u> | <u>2,479,818</u> | <u>16,460,666</u> |
| <u>(622,639)</u> | <u>(420,311)</u> | <u>3,241,954</u> |
| 50,000 | 833,000 | 4,255,500 |
| - | - | (4,255,500) |
| <u>-</u> | <u>-</u> | <u>3,475</u> |
| <u>50,000</u> | <u>833,000</u> | <u>3,475</u> |
| (572,639) | 412,689 | 3,245,429 |
| <u>1,958,849</u> | <u>1,557,422</u> | <u>9,615,196</u> |
| <u>\$ 1,386,210</u> | <u>\$ 1,970,111</u> | <u>\$ 12,860,625</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

Net change in fund balances – total governmental funds \$ 3,245,429

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation and capital outlays differed in the current period.

| | | |
|----------------|--------------------|-----------|
| Capital outlay | \$ 1,130,264 | |
| Depreciation | <u>(1,356,005)</u> | |
| Total | | (225,741) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (20,323)

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

| | | |
|--------------------------|----------------|----------|
| Property and other taxes | 57,975 | |
| Municipal income taxes | 123,913 | |
| Intergovernmental | (211,301) | |
| Charges for services | <u>(6,803)</u> | |
| Total | | (36,216) |

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

| | | |
|---------------|------------|--------|
| OPWC loans | 20,887 | |
| Capital lease | <u>877</u> | |
| Total | | 21,764 |

(continued)

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

| | |
|--|----------------------------|
| Internal service funds are used by management to charge costs of certain activities, such as worker's compensation insurance and health insurance. The net revenue (expense) of the Internal Service Funds is reported with the Governmental Activities. | 51,458 |
| 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 | (71,921) |
| Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. | 1,433,942 |
| Except for amounts reported as deferred outflows/inflows, changes in the net pension asset/liability are reported as pension/OPEB reduction of expense in the Statement of Activities. | <u>(2,675,466)</u> |
| Change in net position of governmental activities | \$ <u><u>1,722,926</u></u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 1,502,932 | \$ 1,502,932 | \$ 1,624,485 | \$ 121,553 |
| Municipal income taxes | 10,109,995 | 10,027,167 | 10,037,467 | 10,300 |
| Intergovernmental | 415,082 | 415,082 | 456,618 | 41,536 |
| Charges for services | 307,150 | 307,150 | 127,772 | (179,378) |
| Licenses and permits | 166,100 | 166,100 | 309,499 | 143,399 |
| Fines and forfeitures | 200,000 | 200,000 | 189,463 | (10,537) |
| Other | 245,000 | 245,000 | 1,084,289 | 839,289 |
| Total revenues | <u>12,946,259</u> | <u>12,863,431</u> | <u>13,829,593</u> | <u>966,162</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | 1,041,056 | 1,017,081 | 845,141 | 171,940 |
| Public health | 230,682 | 225,218 | 188,270 | 36,948 |
| Leisure time activities | 848,337 | 829,040 | 708,008 | 121,032 |
| Community development | 373,491 | 364,557 | 306,933 | 57,624 |
| Basic utility services | 888,028 | 866,760 | 735,442 | 131,318 |
| Transportation | 10,125 | 9,882 | 8,332 | 1,550 |
| General government | 4,666,684 | 4,562,497 | 3,926,265 | 636,232 |
| Total expenditures | <u>8,058,403</u> | <u>7,875,035</u> | <u>6,718,391</u> | <u>1,156,644</u> |
| Excess of revenues over expenditures | <u>4,887,856</u> | <u>4,988,396</u> | <u>7,111,202</u> | <u>2,122,806</u> |
| Other financing sources (uses): | | | | |
| Proceeds from sale of fixed assets | - | - | 361 | 361 |
| Transfers – out | (5,705,619) | (5,806,159) | (4,660,500) | 1,145,659 |
| Total other financing sources (uses) | <u>(5,705,619)</u> | <u>(5,806,159)</u> | <u>(4,660,139)</u> | <u>1,146,020</u> |
| Net change in fund balance | (817,763) | (817,763) | 2,451,063 | 3,268,826 |
| Fund balance, beginning of year | 2,008,827 | 2,008,827 | 2,008,827 | - |
| Encumbrances at end of year | <u>-</u> | <u>-</u> | <u>206,790</u> | <u>206,790</u> |
| Fund balance, end of year | <u>\$ 1,191,064</u> | <u>\$ 1,191,064</u> | <u>\$ 4,666,680</u> | <u>\$ 3,475,616</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------------|------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 609,297 | \$ 609,297 | \$ 653,122 | \$ 43,825 |
| Intergovernmental | 52,982 | 52,982 | 56,741 | 3,759 |
| Other | 53,250 | 53,250 | 212,801 | 159,551 |
| Total revenues | <u>715,529</u> | <u>715,529</u> | <u>922,664</u> | <u>207,135</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | <u>3,205,846</u> | <u>3,125,482</u> | <u>2,845,597</u> | <u>279,885</u> |
| Excess of revenues under expenditures | (2,490,317) | (2,409,953) | (1,922,933) | 487,020 |
| Other financing sources: | | | | |
| Transfers – in | <u>2,250,000</u> | <u>2,169,636</u> | <u>1,987,500</u> | <u>(182,136)</u> |
| Net change in fund balance | (240,317) | (240,317) | 64,567 | 304,884 |
| Fund balance, beginning of year | 311,612 | 311,612 | 311,612 | - |
| Encumbrances at end of year | <u>-</u> | <u>-</u> | <u>5,707</u> | <u>5,707</u> |
| Fund balance, end of year | <u>\$ 71,295</u> | <u>\$ 71,295</u> | <u>\$ 381,886</u> | <u>\$ 310,591</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 1,807,581 | \$ 1,807,581 | \$ 1,937,598 | \$ 130,017 |
| Intergovernmental | 182,181 | 182,181 | 310,223 | 128,042 |
| Total revenues | <u>1,989,762</u> | <u>1,989,762</u> | <u>2,247,821</u> | <u>258,059</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | <u>4,033,161</u> | <u>3,876,220</u> | <u>3,621,232</u> | <u>254,988</u> |
| Excess of revenues under expenditures | (2,043,399) | (1,886,458) | (1,373,411) | 513,047 |
| Other financing sources: | | | | |
| Transfers – in | <u>1,800,000</u> | <u>1,643,059</u> | <u>1,385,000</u> | <u>(258,059)</u> |
| Net change in fund balance | (243,399) | (243,399) | 11,589 | 254,988 |
| Fund balance, beginning of year | 397,918 | 397,918 | 397,918 | - |
| Encumbrances at end of year | <u>-</u> | <u>-</u> | <u>121,794</u> | <u>121,794</u> |
| Fund balance, end of year | <u>\$ 154,519</u> | <u>\$ 154,519</u> | <u>\$ 531,301</u> | <u>\$ 376,782</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2020

| | Business-Type Activities | Governmental Activities |
|---|-----------------------------|------------------------------|
| | Sewer Treatment Fund | Internal Services Fund |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,479,942 | \$ 318,748 |
| Accounts receivable, net | 1,147,790 | - |
| Intergovernmental receivable | 1,277 | 3,122 |
| Supplies and materials inventory | 26,874 | - |
| Prepaid expenses | 70,313 | - |
| Total current assets | <u>9,726,196</u> | <u>321,870</u> |
| Noncurrent assets: | | |
| Non-depreciable capital assets | 394,638 | - |
| Depreciable capital assets, net | 6,494,230 | - |
| Net pension asset | 10,123 | - |
| Total noncurrent assets | <u>6,898,991</u> | <u>-</u> |
| Total assets | <u>16,625,187</u> | <u>321,870</u> |
| Deferred outflows of resources: | | |
| Pension | 275,055 | - |
| OPEB | 186,542 | - |
| Total deferred outflows of resources | <u>461,597</u> | <u>-</u> |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | 85,589 | 14,486 |
| Accrued wages and benefits | 36,723 | - |
| Claims payable | - | 157,576 |
| Accrued compensated absences | 115,634 | - |
| Due within one year – OPWC loans | 9,083 | - |
| Total current liabilities | <u>247,029</u> | <u>172,062</u> |
| Long-term liabilities (net of current portion): | | |
| Accrued compensated absences | 181,943 | - |
| OPWC loans payable | 245,241 | - |
| Net pension liability | 1,759,155 | - |
| Net OPEB liability | 1,171,939 | - |
| Total long-term liabilities | <u>3,358,278</u> | <u>-</u> |
| Total liabilities | <u>3,605,307</u> | <u>172,062</u> |
| Deferred inflows of resources: | | |
| Pension | 394,256 | - |
| OPEB | 184,336 | - |
| Total deferred inflows of resources | <u>578,592</u> | <u>-</u> |
| Net position: | | |
| Net investment in capital assets | 6,634,544 | - |
| Unrestricted | 6,268,341 | 149,808 |
| Total net position | <u>\$ 12,902,885</u> | <u>\$ 149,808</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

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

For the Year Ended December 31, 2020

| | Business-Type Activities <u>Sewer Treatment Fund</u> | Governmental Activities <u>Internal Services Fund</u> |
|---------------------------------|--|---|
| Operating revenues: | | |
| Charges for services | \$ 4,370,788 | \$ 1,289,481 |
| Other | <u>130,528</u> | <u>-</u> |
| Total operating revenues | <u>4,501,316</u> | <u>1,289,481</u> |
| Operating expenses: | | |
| Personal services | 2,030,344 | - |
| Travel and education | 12,681 | - |
| Contractual services | 708,028 | 1,290 |
| Supplies and materials | 266,134 | - |
| Claims | - | 1,236,749 |
| Depreciation | <u>385,978</u> | <u>-</u> |
| Total operating expenses | <u>3,403,165</u> | <u>1,238,039</u> |
| Operating income | <u>1,098,151</u> | <u>51,442</u> |
| Non-operating revenues: | | |
| Investment income | <u>2,464</u> | <u>16</u> |
| Income before contributions | 1,100,615 | 51,458 |
| Capital contributions | <u>38,070</u> | <u>-</u> |
| Change in net position | 1,138,685 | 51,458 |
| Net position, beginning of year | <u>11,764,200</u> | <u>98,350</u> |
| Net position, end of year | <u>\$ 12,902,885</u> | <u>\$ 149,808</u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2020

| | Business-Type Activities | Governmental Activities |
|---|-----------------------------|-------------------------------|
| | Sewer Treatment Fund | Internal Services Funds |
| Cash flows from operating activities | | |
| Cash received from customers | \$ 4,352,545 | \$ - |
| Cash received from interfund services | - | 1,289,609 |
| Cash payments for goods and services | (687,807) | (1,290) |
| Cash payments to employees for services and benefits | (1,877,343) | - |
| Cash payments for materials and supplies | (261,973) | - |
| Cash payments for claims | - | (1,222,650) |
| Cash received for other operating activities | 120,054 | - |
| Net cash provided by operating activities | <u>1,645,476</u> | <u>65,669</u> |
| Cash flows from capital and related financing activities | | |
| Acquisition and construction of assets | (721,793) | - |
| Capital contributions | 10,000 | - |
| Principal paid | (4,542) | - |
| Net cash used by capital and related financing activities | <u>(716,335)</u> | <u>-</u> |
| Cash flows from investing activities | | |
| Interest received | 2,464 | 16 |
| Net increase in cash and cash equivalents | 931,605 | 65,685 |
| Cash and cash equivalents at beginning of year | <u>7,548,337</u> | <u>253,063</u> |
| Cash and cash equivalents at end of year | <u>\$ 8,479,942</u> | <u>\$ 318,748</u> |

(continued)

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Statement of Cash Flows (continued) Proprietary Funds

For the Year Ended December 31, 2020

| | Business-Type Activities | Governmental Activities |
|--|-----------------------------|-------------------------------|
| | Sewer Treatment Fund | Internal Services Funds |
| <i>Reconciliation of operating income to net cash from operating activities:</i> | | |
| Operating income | \$ 1,098,151 | \$ 51,442 |
| Adjustments: | | |
| Depreciation | 385,978 | - |
| Changes in assets/liabilities | | |
| Increase in accounts receivable, net | (19,520) | - |
| Decrease in intergovernmental receivable, net | - | 128 |
| Increase in prepaid expenses | (23,535) | - |
| Decrease in supplies and materials inventory | 4,161 | - |
| Increase in net pension asset | (640) | - |
| Decrease in deferred outflows - pension | 452,018 | - |
| Increase in deferred outflows - OPEB | (89,564) | - |
| Increase in accounts payable | 36,158 | 1,008 |
| Decrease in accrued wages and benefits | (47,628) | - |
| Increase in claims payable | - | 13,091 |
| Decrease in accrued compensated absences | (18,544) | - |
| Decrease in net pension liability | (666,293) | - |
| Increase in net OPEB liability | 59,516 | - |
| Increase in deferred inflows - pension | 319,062 | - |
| Increase in deferred inflows - OPEB | 156,156 | - |
| Net cash provided by operating activities | \$ <u>1,645,476</u> | \$ <u>65,669</u> |
| Non-cash capital financing activities: | | |
| Capital asset from governmental activities | \$ 28,070 | \$ - |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Statement of Fiduciary Net Position Fiduciary Funds

December 31, 2020

| | <u>Total Custodial Funds</u> |
|----------------------------------|--------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ <u>17,356</u> |
| Liabilities: | |
| Due to other governments | <u>17,356</u> |
| Net Position: | |
| Restricted for other governments | <u>-</u> |
| Total net position | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Statement of Change in Fiduciary Net Position Fiduciary Funds

For the Year Ended December 31, 2020

| | <u>Total Custodial Funds</u> |
|---------------------------------|--------------------------------------|
| Additions: | |
| Court deposits | \$ 190,979 |
| Deductions: | |
| Court disbursements | <u>190,979</u> |
| Change in net position | - |
| Net position, beginning of year | <u>-</u> |
| Net position, end of year | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2020

Note 1: The Reporting Entity

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Bedford Heights this includes police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The City’s departments include a public safety department, a public service department, a street maintenance department, a sanitation system department, parks and recreation department, a planning and zoning department, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

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

Note 2: Summary of Significant Accounting Policies

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

A. Basis of Presentation

The City’s basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The activity of the internal service funds are eliminated to avoid doubling up revenues and expenses.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

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

Fund Financial Statements

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

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

B. Fund Accounting

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

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

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

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

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

Enterprise Fund – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's major enterprise fund is the Sewer Treatment Fund. This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

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

Fiduciary Funds – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's custodial fund is for the Mayor's Court.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

Fund Financial Statements

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is 60 days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7).

Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, and grants.

Unearned Revenue

Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned. Unearned revenues consist of unspent COVID-19 funds received from the federal government which will be used in a future period.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements that report financial position may include a section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources for pension and OPEB (other postemployment benefits) plans reported in the Statements of Net Position and the amount in the proprietary funds is also reported in the fund financial statements. The deferred outflows of resources related to pension and OPEB plans are explained in Note 13 and Note 14, respectively.

In addition to liabilities, the financial statements that report financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, unavailable revenue and amounts for pension and OPEB plans. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2020, but which were levied to finance 2021 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, charges for services and intergovernmental. 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 and OPEB plans are reported on the government-wide Statement of Net Position and in the proprietary funds on the Statement of Fund Net Position.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Expenses/Expenditures

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

E. Budgetary Process

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

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

Tax Budget

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

Estimated Resources

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

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments are made during the year if the Finance Director determines that revenues to be collected will be greater than or less than the prior estimates and the budget commission find the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2020. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2020.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Annual Estimate

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

Appropriations

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

Lapsing of Appropriations

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

Budgeted Level of Expenditure

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

Encumbrances

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents

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

During 2020, the City invested in STAR Ohio.

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

STAR Ohio, is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but the City has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the year ended 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2020 amounted to \$3,731, which includes \$834 assigned from other City funds. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

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

G. Inventory

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2020, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

I. Capital Assets

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

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

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

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

J. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received and from short-term interfund loans are classified as “interfund receivables/payables.” Interfund balance amounts are eliminated in the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. Deferred inflows of resources and deferred outflows of resources from the change in internal proportionate share related to pension and OPEB items are eliminated in the governmental-type activities column of the statement of net position.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the City’s termination policy. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

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

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

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

Assigned: Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance. The City's delegated official is the Finance Director. City Council assigned fund balance to cover gap between estimated revenue and appropriations in 2021's appropriated budget.

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide Statement of Net Position reports \$1,950,433 of restricted net position, none of which is restricted by enabling legislation.

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability/asset, deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB 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/OPEB systems report investments at fair value.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

R. Estimates

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

S. Capital Contribution

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

Note 3: Change in Accounting Principles

Newly Adopted Accounting Pronouncements

For the year ended December 31, 2020, the City implemented the following Governmental Accounting Standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued in June 2018, establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period by simplifying accounting for interest cost incurred before the end of a construction period. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2020. This change was incorporated in the City's financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 83, *Certain Asset Retirement Obligations (AROs)*. This Statement requires a governmental entity that has legal obligation (laws and regulatory requirements, court judgements, contracts, etc.) to perform future asset retirement activities related to its tangible capital assets to recognize a liability, and a corresponding deferred outflow of resources. A liability must be recognized by a government that will eventually retire, dispose of, or environmentally remediate upon retirement, a capital asset if that retirement or disposal carries with it legally enforceable obligations. Measurement of the liability and initial deferred outflow is based on the best estimate of the amount of the current value of outlays expected to be incurred. Annually, the deferred outflow is expensed over the remaining life of the capital asset and evaluated to determine whether the estimate of the liability continues to be appropriate. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2019. These changes were incorporated in the City's 2020 financial statements and are required to be applied to the City's financial statements retroactively.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 3: Change in Accounting Principles (continued)

Newly Adopted Accounting Pronouncements (continued)

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Activities meeting the criteria should be reported in a fiduciary fund in the basic financial statements. GASB Implementation Guide No. 2019-2, *Fiduciary Activities*, issued in June 2019, provides guidance to address issues related to accounting and financial reporting for fiduciary activities in accordance with the requirements of GASB Statement No. 84. These changes were incorporated in the City's 2020 financial statements and are required to be applied to the City's financial statements retroactively.

The implementation of GASB Statement No. 83 and Statement No. 84 had the following effect on beginning net position and beginning fund balances as reported as of December 31, 2019:

Government-wide net position:

| | <u>Governmental Activities</u> | <u>Total</u> |
|--|------------------------------------|-----------------------------|
| Net position at December 31, 2019 | \$ 2,711,391 | \$ 14,475,591 |
| GASB 83 asset retirement obligations | (35,000) | (35,000) |
| GASB 84 fund reclassification | <u>14,239</u> | <u>14,239</u> |
| Restated net position at December 31, 2019 | \$ <u><u>2,690,630</u></u> | \$ <u><u>14,454,830</u></u> |

Governmental funds fund balances:

| | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--|---|
| Fund balance at December 31, 2019 | \$ 1,543,183 | \$ 9,600,957 |
| GASB 84 fund reclassification | <u>14,239</u> | <u>14,239</u> |
| Restated fund balance at December 31, 2019 | \$ <u><u>1,557,422</u></u> | \$ <u><u>9,615,196</u></u> |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 3: Change in Accounting Principles (continued)

Newly Issued Accounting Pronouncements, Not Yet Adopted

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2021. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. This statement addresses a variety of topics with objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020 to address accounting and financial reporting implications that result from global reference rate reform. The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. The City has not yet determined the impact that these implementation guides will have on its financial statements and disclosures.

GASB Implementation Guide No. 2019-1, *Implementation Guide Update-2019*, and GASB Implementation Guide No. 2019-3, *Leases*, effective dates were also deferred as a result of GABS Statement No. 95. The effective date of these implementation guides are reporting periods beginning after June 15, 2020 and June 15, 2021, respectively. The City has not yet determined the impact that these implementation guides will have on its financial statements and disclosures.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 4: Fund Balances

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

| <u>Fund Balances</u> | <u>General</u> | <u>Fire Levy</u> | <u>Issue 24 Levy</u> | <u>Capital Improvements</u> | <u>Nonmajor Governmental</u> | <u>Total Governmental</u> |
|-----------------------------------|---------------------|-------------------|----------------------|-----------------------------|------------------------------|---------------------------|
| Nonspendable: | | | | | | |
| Prepays | \$ 105,877 | \$ 37,167 | \$ 43,762 | \$ - | \$ 5,461 | \$ 192,267 |
| Inventory | 4,296 | - | - | - | 90,597 | 94,893 |
| Unclaimed monies | 5,836 | - | - | - | - | 5,836 |
| Total nonspendable | <u>116,009</u> | <u>37,167</u> | <u>43,762</u> | <u>-</u> | <u>96,058</u> | <u>292,996</u> |
| Restricted: | | | | | | |
| Fire Levy | - | 358,404 | - | - | - | 358,404 |
| Issue 24 Levy | - | - | 491,582 | - | - | 491,582 |
| Debt service payments | - | - | - | - | 224,101 | 224,101 |
| State highway | - | - | - | - | 49,082 | 49,082 |
| Street construction | - | - | - | - | 440,126 | 440,126 |
| Police and fire pensions | - | - | - | - | 450,509 | 450,509 |
| Law enforcement trust | - | - | - | - | 6,724 | 6,724 |
| DUI enforcement | - | - | - | - | 15,118 | 15,118 |
| JAG Byrne grant | - | - | - | - | 948 | 948 |
| Mayor's court computer | - | - | - | - | 17,387 | 17,387 |
| Local law enforcement block grant | - | - | - | - | 829 | 829 |
| Juvenile community diversion | - | - | - | - | 3,321 | 3,321 |
| Sobriety checkpoint | - | - | - | - | 68 | 68 |
| NOPEC Energy Grant | - | - | - | - | 49,248 | 49,248 |
| Garden club | - | - | - | - | 688 | 688 |
| Capital improvements | - | - | - | 298,478 | - | 298,478 |
| Tax incentive review | 18,656 | - | - | - | - | 18,656 |
| Other purposes | 233,329 | - | - | - | 14,445 | 247,774 |
| Total restricted | <u>251,985</u> | <u>358,404</u> | <u>491,582</u> | <u>298,478</u> | <u>1,272,594</u> | <u>2,673,043</u> |
| Committed: | | | | | | |
| Capital improvements | - | - | - | 1,087,732 | - | 1,087,732 |
| Safety department equipment | - | - | - | - | 13,679 | 13,679 |
| Ambulance billing | - | - | - | - | 449,996 | 449,996 |
| Cable TV program | - | - | - | - | 137,784 | 137,784 |
| Termination benefits | 401,773 | - | - | - | - | 401,773 |
| Total committed | <u>401,773</u> | <u>-</u> | <u>-</u> | <u>1,087,732</u> | <u>601,459</u> | <u>2,090,964</u> |
| Assigned: | | | | | | |
| Year 2021 appropriations | 658,675 | - | - | - | - | 658,675 |
| Purchases on order | 161,581 | - | - | - | - | 161,581 |
| Total assigned | <u>820,256</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>820,256</u> |
| Unassigned | 6,983,366 | - | - | - | - | 6,983,366 |
| Total fund balance | \$ <u>8,573,389</u> | \$ <u>395,571</u> | \$ <u>535,344</u> | \$ <u>1,386,210</u> | \$ <u>1,970,111</u> | \$ <u>12,860,625</u> |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 5: Budgetary Basis of Accounting

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

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

- (a) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- (b) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- (c) Encumbrances are treated as expenditures (budgetary) rather than assigned fund balance (GAAP).
- (d) Budgetary revenues and expenditures of certain funds are classified to general fund for GAAP Reporting.

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

| | <u>Net Change in Fund Balances</u> | | |
|--|------------------------------------|----------------------|--------------------------|
| | <u>General</u> | <u>Fire Levy</u> | <u>Issue 24 Levy</u> |
| GAAP basis | \$ 2,979,060 | \$ 174,244 | \$ 252,075 |
| <u>Increase (decrease) due to:</u> | | | |
| Revenue accruals | 161,389 | (19,520) | (19,846) |
| Expenditure accruals | (500,115) | (84,450) | (98,846) |
| Encumbrances | (206,790) | (5,707) | (121,794) |
| To reclassify the net change in fund balance for funds combined with the general fund for GASB 54 | <u>17,519</u> | <u>-</u> | <u>-</u> |
| Budget basis | \$ <u>2,451,063</u> | \$ <u>64,567</u> | \$ <u>11,589</u> |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 6: Deposits and Investments

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

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

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

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

Interim monies may be deposited or invested in the following securities:

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 6: Deposits and Investments (continued)

8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it.

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

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

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

At year-end, the bank balance of the City's deposits was \$20,834,662. At year-end \$6,909,172 of the City's total bank balance was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. One of the City's financial institution participates in the OPCS and was approved by the Ohio Treasurer of State for a reduced collateral floor of 50% resulting in the uninsured and uncollateralized balance. The City also has \$250 in petty cash on hand.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 6: Deposits and Investments (continued)

B. Investments

As of December 31, 2020, the City had the following investments:

| | <u>Fair Value</u> | <u>Maturities (in years) Less than 1</u> | <u>Maturities (in years) More than 1</u> |
|-----------|---------------------|--|--|
| STAR Ohio | \$ <u>1,048,308</u> | \$ <u>1,048,308</u> | \$ <u>-</u> |

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

STAR Ohio is measured at amortized cost, Level 1. At December 31, 2020, the average days to maturity was 55.8.

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

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

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

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2020:

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 7: Receivables

Receivables at December 31, 2020 consisted primarily of taxes, accounts, special assessments and intergovernmental receivables arising from shared revenues. The sewer treatment fund accounts receivable is net of a \$91,599 allowance for doubtful accounts. All remaining receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2020 for real and public utility property taxes represents collections for 2019 taxes. Property tax payments received during 2020 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due mid-January with the remainder payable by mid-July. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

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

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

The assessed values per category applicable to the 2020 tax collections are as follows:

Assessed Value

| | |
|----------------|-----------------------|
| Category | |
| Real estate | \$ 224,031,390 |
| Public utility | <u>8,494,160</u> |
| Total | \$ <u>232,525,550</u> |

The tax rate levied to finance the City's services for the year ended December 31, 2020 was \$21.9 per \$1,000 of real estate and personal property valuation.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 7: Receivables (continued)

B. Income Tax

The City levies and collects an income tax of 2% on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least monthly.

Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The City, by ordinance, allocates income tax revenues and expenditures for collecting, administering, and enforcing the tax to the general fund.

C. Intergovernmental

A summary of intergovernmental receivables is as follows:

| | |
|------------------------------------|-------------------|
| Governmental activities: | <u>Amounts</u> |
| Local governmental | \$ 163,932 |
| Homestead and rollback | 201,736 |
| Gasoline tax | 275,156 |
| Auto registration | 54,418 |
| Permissive auto tax | 7,319 |
| Miscellaneous | <u>23,263</u> |
| Total governmental activities | <u>725,824</u> |
| Business type activities: | |
| Miscellaneous | <u>1,277</u> |
| Total intergovernmental receivable | <u>\$ 727,101</u> |

Note 8: Interfund Transactions

Interfund transfers for the year ended December 31, 2020, consisted of the following:

| | |
|-----------------------------|----------------------|
| | <u>Transfer from</u> |
| | General |
| <u>Transfer to</u> | <u>Fund</u> |
| Fire Levy Fund | \$ 1,987,500 |
| Issue 24 Levy Fund | 1,385,000 |
| Capital Improvements Fund | 50,000 |
| Nonmajor governmental funds | <u>833,000</u> |
| Total | <u>\$ 4,255,500</u> |

The transfers in the Statement of Activities include \$28,070 of capital assets transferred from governmental activities to the sewer fund. See Note 9 for additional information.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 8: Interfund Transactions (continued)

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

The City uses an internal proportionate share to allocate its net pension asset/liability, net OPEB liability and corresponding deferred outflows/inflows of resources and pension and OPEB expense to its various funds. This allocation creates a change in internal proportionate share. The effects of the internal proportionate share are eliminated from the pension and OPEB deferred outflows/inflows of resources in the total column of the statement of net position. Eliminations made in the total column include a deferred outflow of resources and a deferred inflow of resources in the amount of \$8,360 related to pension and \$2,295 related to OPEB.

Note 9: Capital Assets

A summary of changes in capital assets during 2020 follows:

| | <u>Balance</u> <u>12/31/19</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>12/31/20</u> |
|---|-----------------------------------|---------------------|--------------------|-----------------------------------|
| Governmental activities: | | | | |
| Non-depreciable assets: | | | | |
| Land | \$ 2,231,201 | \$ - | \$ - | \$ 2,231,201 |
| Construction in progress | <u>265,028</u> | <u>901,696</u> | <u>-</u> | <u>1,166,724</u> |
| Total non-depreciable assets | <u>2,496,229</u> | <u>901,696</u> | <u>-</u> | <u>3,397,925</u> |
| Depreciable assets: | | | | |
| Buildings and improvements | 20,487,999 | 26,370 | (31,431) | 20,482,938 |
| Furniture, fixtures and equipment | 6,292,372 | 78,568 | - | 6,370,940 |
| Vehicles | 3,554,053 | 67,386 | (39,181) | 3,582,258 |
| Infrastructure: | | | | |
| Streets | <u>15,817,656</u> | <u>56,244</u> | <u>-</u> | <u>15,873,900</u> |
| Total depreciable assets | <u>46,152,080</u> | <u>228,568</u> | <u>(70,612)</u> | <u>46,310,036</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (14,498,946) | (455,944) | 14,181 | (14,940,709) |
| Furniture, fixtures and equipment | (3,987,409) | (348,089) | - | (4,335,498) |
| Vehicles | (2,419,147) | (174,096) | 36,108 | (2,557,135) |
| Infrastructure: | | | | |
| Streets | <u>(12,863,803)</u> | <u>(377,876)</u> | <u>-</u> | <u>(13,241,679)</u> |
| Total accumulated depreciation | <u>(33,769,305)</u> | <u>(1,356,005)</u> | <u>50,289</u> | <u>(35,075,021)</u> |
| Total depreciable assets, net | <u>12,382,775</u> | <u>(1,127,437)</u> | <u>(20,323)</u> | <u>11,235,015</u> |
| Governmental activities capital assets, net | \$ <u>14,879,004</u> | \$ <u>(225,741)</u> | \$ <u>(20,323)</u> | \$ <u>14,632,940</u> |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 9: Capital Assets (continued)

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|---------------------|
| General government | \$ 101,947 |
| Security of persons and property | 466,469 |
| Public health and welfare | 2,925 |
| Leisure time activities | 327,890 |
| Basic utility services | 5,425 |
| Transportation | <u>451,349</u> |
| Total | <u>\$ 1,356,005</u> |

| | <u>Balance 12/31/19</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 12/31/20</u> |
|-----------------------------------|-----------------------------|-------------------|------------------|-----------------------------|
| Business-type activities: | | | | |
| Non-depreciable assets: | | | | |
| Land | \$ 99,200 | \$ - | \$ - | \$ 99,200 |
| Construction in progress | <u>-</u> | <u>295,438</u> | <u>-</u> | <u>295,438</u> |
| Total non-depreciable assets | <u>99,200</u> | <u>295,438</u> | <u>-</u> | <u>394,638</u> |
| Depreciable assets: | | | | |
| Buildings and improvements | 5,008,277 | - | - | 5,008,277 |
| Furniture, fixtures and equipment | 7,832,514 | 20,912 | - | 7,853,426 |
| Vehicles | 394,144 | 433,513 | - | 827,657 |
| Infrastructure: | | | | |
| Sewers | <u>7,142,403</u> | <u>-</u> | <u>-</u> | <u>7,142,403</u> |
| Total depreciable assets | <u>20,377,338</u> | <u>454,425</u> | <u>-</u> | <u>20,831,763</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (3,853,913) | (152,095) | - | (4,006,008) |
| Furniture, fixtures and equipment | (6,875,897) | (54,276) | - | (6,930,173) |
| Vehicles | (266,620) | (40,940) | - | (307,560) |
| Infrastructure: | | | | |
| Sewers | <u>(2,955,125)</u> | <u>(138,667)</u> | <u>-</u> | <u>(3,093,792)</u> |
| Total accumulated depreciation | <u>(13,951,555)</u> | <u>(385,978)</u> | <u>-</u> | <u>(14,337,533)</u> |
| Total depreciable assets, net | <u>6,425,783</u> | <u>68,447</u> | <u>-</u> | <u>6,494,230</u> |
| Business-type capital assets, net | <u>\$ 6,524,983</u> | <u>\$ 363,885</u> | <u>\$ -</u> | <u>\$ 6,888,868</u> |

During 2020, the City contributed capital from governmental activities to the sewer fund. The contributed capital had a cost basis of \$28,070. The contributed capital is reported as an addition in the sewer fund construction in progress.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 10: Long-Term Debt

A. Original Issues

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

| <u>Debt Issue</u> | <u>Original Issue Date</u> | <u>Interest Rate</u> | <u>Original Issue Amount</u> |
|-----------------------------|----------------------------|----------------------|------------------------------|
| OPWC Loan: | | | |
| Sunset Drive Improvements | 2009 | 0.00% | \$ 281,155 |
| Columbia Drive Improvements | 2012 | 0.00% | 538,699 |
| Perkins Road Forcemain | 2017 | 0.00% | 272,491 |

B. Other Long-Term Obligations

Other long-term obligations payable activity for the year ended December 31, 2020 was as follows:

| | <u>Balance 12/31/19</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/20</u> | <u>Due Within One Year</u> |
|---|-------------------------|---------------------|-----------------------|-------------------------|----------------------------|
| Governmental activities: | | | | | |
| Ohio Public Works Commission loans*: | | | | | |
| Sunset Drive improvements, due through 2030 | \$ 155,806 | \$ - | \$ (7,420) | \$ 148,386 | \$ 14,838 |
| Columbia Drive improvements, due through 2034 | <u>377,089</u> | <u>-</u> | <u>(13,467)</u> | <u>363,622</u> | <u>26,935</u> |
| Total Ohio Public Works Commission loans | <u>532,895</u> | <u>-</u> | <u>(20,887)</u> | <u>512,008</u> | <u>41,773</u> |
| Other long-term obligations: | | | | | |
| Capital leases payable* | 3,530 | - | (877) | 2,653 | 934 |
| Accrued compensated absences | 2,045,496 | 847,590 | (775,669) | 2,117,417 | 817,992 |
| Asset retirement obligations | 35,000 | - | - | 35,000 | - |
| Net pension liability | 22,819,319 | - | (5,291,180) | 17,528,139 | - |
| Net OPEB liability | <u>4,696,616</u> | <u>208,712</u> | <u>-</u> | <u>4,905,328</u> | <u>-</u> |
| Total other long-term obligations | <u>29,744,446</u> | <u>2,435,633</u> | <u>(7,433,966)</u> | <u>24,746,113</u> | <u>976,502</u> |
| Total governmental activities long-term liabilities | \$ <u>30,132,856</u> | \$ <u>1,056,302</u> | \$ <u>(6,088,613)</u> | \$ <u>25,100,545</u> | \$ <u>860,699</u> |

* Long-term obligation is a direct placement.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 10: Long-Term Debt (continued)

B. Other Long-Term Obligations (continued)

| | <u>Balance</u> <u>12/31/19</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/20</u> | <u>Due</u> <u>Within</u> <u>One Year</u> |
|---|-----------------------------------|-------------------|---------------------|-----------------------------------|--|
| Business-type activities: | | | | | |
| Ohio Public Works Commission loan*: | | | | | |
| Perkins Road Forcemain, due through 2048 | \$ 258,866 | \$ - | \$ (4,542) | \$ 254,324 | \$ 9,083 |
| Other long-term obligations: | | | | | |
| Accrued compensated absences | 316,121 | 119,461 | (138,005) | 297,577 | 115,634 |
| Net pension liability | 2,425,448 | - | (666,293) | 1,759,155 | - |
| Net OPEB liability | <u>1,112,423</u> | <u>59,516</u> | <u>-</u> | <u>1,171,939</u> | <u>-</u> |
| Total business-type activities long-term liabilities | \$ <u>4,112,858</u> | \$ <u>178,977</u> | \$ <u>(808,840)</u> | \$ <u>3,482,995</u> | \$ <u>124,717</u> |

* Long-term obligation is a direct placement.

The City's outstanding OPWC loans from direct borrowings contain provisions that in the event of default (1) OPWC may apply late fees of 8% per year, (2) loans more than 60 days late will be turned over to the Attorney General's office for collection, and as provided by law, OPWC may require that such payment be taken from the City's share of the county undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable.

During 2020, as a response to COVID-19, OPWC made the decision to defer the July 2020 loan payment for six months. The amortization schedules were adjusted to push back all payments six months. Borrowers have the option to make a double-payment in January 2021 or use the modified amortization schedule.

The governmental activities OPWC loans will be paid from the capital improvement fund and the business-type OPWC loans will be paid from the sewer fund. The City pays obligations related to employee compensation and pension/OPEB amounts from the fund benefitting from their service.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 10: Long-Term Debt (continued)

B. Other Long-Term Obligations (continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2020 are as follows:

| Year | OPWC Loans* | |
|-----------|---------------------------|----------------------------|
| | Governmental Principal | Business-Type Principal |
| 2021 | \$ 41,773 | \$ 9,083 |
| 2022 | 41,774 | 9,083 |
| 2023 | 41,774 | 9,083 |
| 2024 | 41,773 | 9,083 |
| 2025 | 41,774 | 9,083 |
| 2026-2030 | 208,868 | 45,415 |
| 2031-2035 | 94,272 | 45,415 |
| 2036-2040 | - | 45,415 |
| 2041-2045 | - | 45,415 |
| 2046-2048 | - | 27,249 |
| Totals | \$ <u>512,008</u> | \$ <u>254,324</u> |

* Long-term obligation is a direct placement.

Note 11: Capital Leases

The City has entered into a lease agreement as lessee for financing which relate to various equipment. The lease is a long-term agreement which meets the criteria of a capital lease and has been recorded on the government-wide financial statements. This amount represent the present value of the minimum lease payments at the inception of the lease.

| | Governmental Activities |
|--------------------------------|----------------------------|
| Assets: | |
| Equipment | \$ 4,610 |
| Less: accumulated depreciation | <u>(2,305)</u> |
| Total | \$ <u>2,305</u> |

Amortization of capital leases is included in depreciation expense.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Capital Leases (continued)

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

| <u>Year</u> | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2021 | \$ 1,092 |
| 2022 | 1,092 |
| 2023 | <u>728</u> |
| Total minimum lease payments | 2,912 |
| Less: Amount representing interest | <u>(259)</u> |
| Present value of minimum lease payments | \$ <u><u>2,653</u></u> |

Lease payments will be made from the issue 24 levy fund. The lease payments will be paid with current available resources that have accumulated in the fund.

Note 12: Compensated Absences

The City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at December 31, 2020. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans

A. *Net Pension/OPEB Liability (Asset)*

The net pension/OPEB liability (asset) reported on the Statement of Net Position represents a liability (asset) to employees for pensions/OPEB. Pensions/OPEB are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions/OPEB 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/OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liabilities (assets) represents the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) 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.

The 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/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68 and 75 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). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits including primarily health care. In most cases, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium.

State statute requires the retirement systems to amortize unfunded pension/OPEB liabilities within 30 years. If the pension/OPEB amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability (asset) on the accrual basis of accounting. Any liability for the contractually-required contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

Plan Description – City employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional pension plan, a defined benefit plan; the Combined plan, a combination defined benefit/defined contribution plan; and the Member-Directed plan, a defined contribution plan. While members (e.g., City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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

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

| Group A | Group B | Group C |
|---|---|---|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| State and Local Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit | State and Local Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit | State and Local Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

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

Once a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, current law provides for an annual cost-of-living adjustment (COLA). This COLA is calculated on the member's base retirement benefit at the date of retirement and is not compounded. Members retiring under the Combined plan receive a COLA on the defined benefit portion of their retirement benefit. For those who retired prior to January 7, 2013, current law provides for a 3% COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan and Combined plan.

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS-contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers. It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care.

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

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

| Group A | Group B | Group C |
|--|--|--|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| State and Local | State and Local | State and Local |
| Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30 | Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30 | Formula: 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35 |

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Both Member-Directed plan and Combined plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans.

Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year.

At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of their benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance (net of taxes withheld), or a combination of these options.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10% of covered payroll for members in the state and local classifications.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2020 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Direct plan for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2020, the City's contractually required contribution, net of postemployment health care benefits, was \$618,357. Of this amount, \$56,067 is reported as accrued wages and benefits at December 31, 2020.

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

Plan Description - the City's full-time police and fire participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer public employee retirement system administered by OP&F. OP&F administers pension, disability, deferred-retirement option plan (DROP) and health care stipend benefits to qualified members. In addition, OP&F administers survivor benefits, death benefits and a health care stipend benefit for eligible survivors, spouses, children and dependent parents. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

OP&F also offers DROP. DROP is a cost neutral benefit offered by OP&F. Upon the DROP effective date, the member's pension is calculated as if that were their date of retirement. While the member continues to work and draw their normal salary, the amount they would have received in retirement benefits accumulates tax-deferred at OP&F on their behalf, as well as a portion of their OP&F employee contributions and interest.

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

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

Members retiring under normal service retirement, who have 15 or more years of service credit as of July 1, 2013 and members who are receiving a pension benefit that became effective before July 1, 2013 will be equal to 3% of the member's base pension benefit.

The COLA amount for members who have less than 15 years of service credit as of July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will be equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3% or the percentage increase in the consumer price index, if any, over the twelve month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one tenth of 1%.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 19.5% of covered payroll for police employer units and 24.0% for fire employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 12.25% of covered payroll for police and fire. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0.5% for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

In 2020, the City's contractually required contribution, net of postemployment health care benefits, was \$966,098. Of this amount, \$86,232 is reported as accrued wages and benefits at December 31, 2020.

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

The net pension liability (asset) for OPERS was measured as of December 31, 2019, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2019, and was determined by rolling forward the total pension liability as of January 1, 2019, to December 31, 2019. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

Following is information related to the proportionate share and pension expense:

| | <u>OPERS Traditional</u> | <u>OPERS Combined</u> | <u>OP&F</u> | <u>Total</u> |
|--|------------------------------|---------------------------|------------------|---------------|
| Proportion of the net pension liability/asset prior measurement date | 0.031482% | 0.030144% | 0.203641% | |
| Proportion of the net pension liability/asset current measurement date | <u>0.031639%</u> | <u>0.017256%</u> | <u>0.193477%</u> | |
| Change in Proportionate Share | 0.000157% | (0.012888%) | (0.010164%) | |
| Proportionate share of the net pension liability | \$ 6,253,663 | \$ - | \$ 13,033,631 | \$ 19,287,294 |
| Proportionate share of the net pension asset | \$ - | \$ 35,983 | \$ - | \$ 35,983 |
| Pension expense | \$ 1,066,531 | \$ 22,396 | \$ 1,347,029 | \$ 2,435,956 |

2020 pension expense for the member-directed defined contribution plan was \$1,907. The aggregate pension expense for all pension plans was \$2,437,863 for 2020.

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>OPERS Traditional</u> | <u>OPERS Combined</u> | <u>OP&F</u> | <u>Total</u> |
|---|------------------------------|---------------------------|---------------------|---------------------|
| Deferred outflow of resources | | | | |
| Difference between expected and actual experience | \$ - | \$ - | \$ 493,365 | \$ 493,365 |
| Change in assumptions | 334,020 | 3,709 | 319,942 | 657,671 |
| Differences in employer contributions and change in proportionate share | 21,714 | - | - | 21,714 |
| City contributions subsequent to the measurement date | <u>610,346</u> | <u>8,011</u> | <u>966,098</u> | <u>1,584,455</u> |
| Total deferred outflow of resources | \$ <u>966,080</u> | \$ <u>11,720</u> | \$ <u>1,779,405</u> | \$ <u>2,757,205</u> |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

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

| | OPERS Traditional | OPERS Combined | OP&F | Total |
|--|----------------------|-------------------|---------------------|---------------------|
| Deferred inflow of resources | | | | |
| Difference between expected and actual experience | \$ 79,069 | \$ 8,448 | \$ 672,197 | \$ 759,714 |
| Net difference between projected and actual earnings on pension plan investments | 1,247,465 | 4,667 | 629,629 | 1,881,761 |
| Differences in employer contributions and change in proportionate share | <u>9,053</u> | <u>-</u> | <u>1,065,525</u> | <u>1,074,578</u> |
| Total deferred inflow of resources | \$ <u>1,335,587</u> | \$ <u>13,115</u> | \$ <u>2,367,351</u> | \$ <u>3,716,053</u> |

The \$1,584,455 reported as deferred outflows of resources related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS Traditional | OPERS Combined | OP&F | Total |
|---------------------------------|----------------------|-------------------|-----------------------|-----------------------|
| Fiscal Year Ending December 31: | | | | |
| 2021 | \$ (141,058) | \$ (2,293) | \$ (455,500) | \$ (598,851) |
| 2022 | (395,128) | (2,205) | (363,100) | (760,433) |
| 2023 | 51,657 | (904) | 72,618 | 123,371 |
| 2024 | (495,324) | (2,613) | (703,185) | (1,201,122) |
| 2025 | - | (488) | (104,877) | (105,365) |
| 2026-2028 | <u>-</u> | <u>(903)</u> | <u>-</u> | <u>(903)</u> |
| | \$ <u>(979,853)</u> | \$ <u>(9,406)</u> | \$ <u>(1,554,044)</u> | \$ <u>(2,543,303)</u> |

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The total pension liability (asset) in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | OPERS <u>Traditional Plan</u> | OPERS <u>Combined Plan</u> |
|---|--|---|
| Valuation date | December 31, 2019 | December 31, 2019 |
| Experience study | 5-year period ended December 31, 2015 | 5-year period ended December 31, 2015 |
| Actuarial cost method | Individual entry age | Individual entry age |
| Actuarial assumptions: | | |
| Investment rate of return | 7.20% | 7.20% |
| Wage inflation | 3.25% | 3.25% |
| Projected salary increases, including 3.25% wage inflation | 3.25 to 10.75% | 3.25 to 8.25% |
| COLA or Ad Hoc COLA: | | |
| Pre-Jan 7, 2013 retirees | 3.00% Simple | 3.00% Simple |
| Post-Jan 7, 2013 retirees | 1.40% Simple through 2020 then 2.15% Simple | 1.40% Simple though 2020 then 2.15% Simple |

OPERS conducts an experience study every five years in accordance with Ohio Revised Code Section 145.22. The study for the five-year period ended December 31, 2015 and methods and assumptions were approved and adopted by the OPERS Board of Trustees.

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

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

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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for changing amounts actually invested for the Defined Benefit portfolio was 17.2% for 2019.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------|--------------------------|---|
| Fixed income | 25.00% | 1.83% |
| Domestic equities | 19.00 | 5.75 |
| Real estate | 10.00 | 5.20 |
| Private equity | 12.00 | 10.70 |
| International equities | 21.00 | 7.66 |
| Other investments | 13.00 | 4.98 |
| Total | <u>100.00%</u> | <u>5.61%</u> |

Discount Rate The discount rate used to measure the total pension liability (asset) for measurement year 2019 was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

Sensitivity of the City’s Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2%, as well as what the City’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2%) or one-percentage-point higher (8.2%) than the current rate:

| | 1% Decrease <u>(6.2%)</u> | Discount Rate <u>(7.2%)</u> | 1% Increase <u>(8.2%)</u> |
|---|------------------------------|--------------------------------|------------------------------|
| City’s proportionate share of the net pension liability – Traditional | \$ 10,314,314 | \$ 6,253,663 | \$ 2,603,257 |
| City’s proportionate share of the net pension (asset) – Combined | \$ (21,743) | \$ (35,983) | \$ (46,246) |

F. Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2019 is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2019, are presented below:

| | |
|----------------------------|------------------------|
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8.00% |
| Projected salary increases | 3.75% - 10.50% |
| Payroll increases | 3.25% |
| Inflation assumptions | 2.75% |
| Cost of living adjustments | 2.20% and 3.00% simple |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 67 or less | 77% | 68% |
| 68-77 | 105% | 87% |
| 78 and up | 115% | 120% |

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 59 or less | 35% | 35% |
| 60-69 | 60% | 45% |
| 70-79 | 75% | 70% |
| 80 and up | 100% | 90% |

The actuarial assumptions used in the valuation are based on the results of a five-year experience review covering the period 2012-2016. The experience study was performed by OP&F's prior actuary and the assumptions were effective January 1, 2017.

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Best estimates of the long-term expected real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019 are summarized below:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return**</u> |
|---------------------------------|--------------------------|---|
| Cash and cash equivalents | 0.0% | 1.0% |
| Domestic equity | 16.0 | 5.4 |
| International equity | 16.0 | 5.8 |
| Private markets | 8.0 | 8.0 |
| Core fixed income* | 23.0 | 2.7 |
| High yield fixed income | 7.0 | 4.7 |
| Private credit | 5.0 | 5.5 |
| U.S. inflation linked bonds* | 17.0 | 2.5 |
| Midstream energy infrastructure | 8.0 | 6.6 |
| Real assets | 8.0 | 7.4 |
| Private real estate | 12.0 | 6.4 |

Note: Assumptions are geometric.

*Levered 2x

**Numbers are net of expected inflation.

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

Discount Rate The total pension liability was calculated using the discount rate of 8.00%. 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 earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

| | <u>1% Decrease (7.00%)</u> | <u>Discount Rate (8.00%)</u> | <u>1% Increase (9.00%)</u> |
|--|--------------------------------|----------------------------------|--------------------------------|
| City’s proportionate share of the net pension liability | \$ 18,064,159 | \$ 13,033,631 | \$ 8,826,093 |

Note 14: Postemployment Benefits

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

Plan Description – OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional plan, a defined benefit plan; the Combined plan, a combination defined benefit/defined contribution plan; and the Member-Directed plan, a defined contribution plan.

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

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional pension and Combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 75. See OPERS’ Annual Report referenced below for additional information.

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

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer’s contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14% of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional plan and Combined plan was 0% for 2020. The portion of employer contributions allocated to health care for members in the Member-Directed plan was 4% during 2020.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions to OPERS health care plans was \$763 for 2020.

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

Plan Description – the City’s full-time police and fire participate in the OP&F retiree health care stipend program, a cost-sharing, multiple-employer, defined benefit OPEB plan that provides various levels of health care to eligible benefit recipients and their eligible dependents.

On Jan. 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. OP&F has contracted with a vendor who can assist eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5% of covered payroll for police and 24.0% of covered payroll for fire. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police and 24.0% 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. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2020, the portion of employer contributions allocated to health care was 0.5% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded.

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

The City's contractually required contribution to OP&F was \$22,883 for 2020. Of this amount, \$2,038 is reported as accrued wages and benefits at December 31, 2020.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability for OPERS as of December 31, 2020, was measured as of December 31, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. OP&F's total OPEB liability was measured as of December 31, 2019, and was determined by rolling forward the total OPEB liability as of January 1, 2019, to December 31, 2019.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

C. *OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)*

The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|---|------------------|------------------|--------------|
| Proportion of the net OPEB liability prior measurement date | 0.030332% | 0.203641% | |
| Proportion of the net OPEB liability current measurement date | <u>0.030162%</u> | <u>0.193477%</u> | |
| Change in Proportionate Share | (0.000170%) | (0.010164%) | |
| Proportionate share of the net OPEB liability | \$ 4,166,155 | \$ 1,911,112 | \$ 6,077,267 |
| OPEB expense | \$ 482,037 | \$ 161,886 | \$ 643,923 |

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|---|-------------------|---------------------|---------------------|
| Deferred outflow of resources | | | |
| Difference between expected and actual experience | \$ 112 | \$ - | \$ 112 |
| Change in assumptions | 659,458 | 1,117,310 | 1,776,768 |
| Differences in employer contributions and change in proportionate share | 2,724 | 30,746 | 33,471 |
| City contributions subsequent to the measurement date | <u>763</u> | <u>22,883</u> | <u>23,645</u> |
| Total deferred outflow of resources | \$ <u>663,057</u> | \$ <u>1,170,939</u> | \$ <u>1,833,996</u> |
| Deferred inflow of resources | | | |
| Difference between expected and actual experience | \$ 381,014 | \$ 205,522 | \$ 586,536 |
| Change in assumptions | - | 407,287 | 407,287 |
| Net difference between projected and actual earnings on OPEB plan investments | 212,140 | 87,942 | 300,082 |
| Differences in employer contributions and change in proportionate share | <u>27,224</u> | <u>207,102</u> | <u>234,326</u> |
| Total deferred inflow of resources | \$ <u>620,378</u> | \$ <u>907,853</u> | \$ <u>1,528,231</u> |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The \$23,645 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending December 31: | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|---------------------------------|------------------|-------------------|-------------------|
| 2021 | \$ 89,494 | \$ 41,705 | \$ 131,199 |
| 2022 | 42,904 | 41,705 | 84,609 |
| 2023 | 169 | 59,744 | 59,913 |
| 2024 | (90,651) | 31,304 | (59,346) |
| 2025 | - | 40,853 | 40,853 |
| 2026-2027 | - | 24,892 | 24,892 |
| | <u>\$ 41,916</u> | <u>\$ 240,203</u> | <u>\$ 282,120</u> |

Changes Between the Measurement Date and the Reporting Date On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are expected to decrease the associated OPEB liability.

D. 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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

The total OPEB liability for the measurement period December 31, 2019 was determined using the following actuarial assumptions that follow.

| | <u>Assumptions</u> |
|---|--|
| Valuation date | December 31, 2018 |
| Rolled-forward measurement date | December 31, 2019 |
| Experience study | 5-year period ended December 31, 2015 |
| Actuarial cost method | Individual entry age normal |
| Projected salary increases, including 3.25% wage inflation | 3.25 to 10.75% |
| Projected payroll/active member increase | 3.25% per year |
| Investment rate of return | 6.00% |
| Municipal bond rate | 2.75% |
| Single discount rate of return | 3.16% |
| Health care cost trend | Initial 10.5% to 3.5% ultimate in 2030 |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The long-term expected rate of return on health care 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.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional pension plan, Combined plan and Member-Directed plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was 19.7% for 2019.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit.

The table below displays the Board-approved asset allocation policy 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 | 36.00% | 1.53% |
| Domestic equities | 21.00 | 5.75 |
| Real estate | 6.00 | 5.69 |
| International equities | 23.00 | 7.66 |
| Other investments | 14.00 | 4.90 |
| Total | 100.00% | 4.55% |

Discount Rate A single discount rate of 3.16% was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 2.75% for the measurement date of December 31, 2019. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be met at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.16%, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16%) or one-percentage-point higher (4.16%) than the current rate:

| | <u>1% Decrease</u> <u>(2.16%)</u> | <u>Discount Rate</u> <u>(3.16%)</u> | <u>1% Increase</u> <u>(4.16%)</u> |
|--|--------------------------------------|--|--------------------------------------|
| City’s proportionate share of the net OPEB liability | \$ 5,452,083 | \$ 4,166,155 | \$ 3,136,546 |

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.5%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries’ project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.5% in the most recent valuation.

The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1% lower or 1% higher than the current rate.

| | <u>1% Decrease</u> | <u>Cost Trend</u> <u>Rate</u> | <u>1% Increase</u> |
|--|--------------------|----------------------------------|--------------------|
| City’s proportionate share of the net OPEB liability | \$ 4,043,216 | \$ 4,166,155 | \$ 4,287,528 |

Assumption Changes Since the Prior Measurement Date Municipal bond rate changed from 3.71% to 2.75% and the single discount rate changed from 3.96% to 3.16%. The health care cost trend rate changed from 10% initial, 3.25%, ultimate in 2029 to 10.5% initial, 3.5% ultimate in 2030.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, 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.

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

| | |
|---|------------------|
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8.00% |
| Price inflation | 2.75% |
| Salary increases, including price inflation | 3.25% – 10.75% |
| Municipal bond index rate | |
| Prior measurement date | 4.13% |
| Current measurement date | 2.75% |
| Single equivalent interest rate, net of plan | |
| Investment expense, including price inflation | |
| Prior measurement date | 4.66% |
| Current measurement date | 3.56% |

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 67 or less | 77% | 68% |
| 68-77 | 105% | 87% |
| 78 and up | 115% | 120% |

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 59 or less | 35% | 35% |
| 60-69 | 60% | 45% |
| 70-79 | 75% | 70% |
| 80 and up | 100% | 90% |

The actuarial assumptions used in the valuation are based on the results of a five-year experience review covering the period 2012-2016. The experience study was performed by OP&F's prior actuary and the assumptions were effective with the January 1, 2017 valuation.

The long-term expected rate of return on OPEB 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 expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019, are summarized below:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return** |
|---------------------------------|-------------------|--|
| Cash and cash equivalents | 0.0% | 1.0% |
| Domestic equity | 16.0 | 5.4 |
| International equity | 16.0 | 5.8 |
| Private markets | 8.0 | 8.0 |
| Core fixed income* | 23.0 | 2.7 |
| High yield fixed income | 7.0 | 4.7 |
| Private credit | 5.0 | 5.5 |
| U.S. inflation linked bonds* | 17.0 | 2.5 |
| Midstream energy infrastructure | 8.0 | 6.6 |
| Real assets | 8.0 | 7.4 |
| Private real estate | 12.0 | 6.4 |

Note: Assumptions are geometric.

*Levered 2x

**Numbers are net of expected inflation.

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the 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 OPEB liability was calculated using the discount rate of 3.56%. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F's fiduciary net position was projected to be able to make all future benefit payment of current and inactive employees until 2034. After that time, the funding of benefit payments is uncertain. The discount rate is the single equivalent rate which results in the same present value as discounting future benefit payments made from assets at the long term expected rate of return and discounting future benefit payments funded on a pay-as-you go basis on the municipal bond 20-year index rate.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 14: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.56%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%), or one percentage point higher (4.56%) than the current rate.

| | 1% Decrease <u>(2.56%)</u> | Discount Rate <u>(3.56%)</u> | 1% Increase <u>(4.56%)</u> |
|---|-------------------------------|---------------------------------|-------------------------------|
| City’s proportionate share of the net OPEB liability | \$ 2,369,655 | \$ 1,911,112 | \$ 1,530,094 |

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

Assumption Changes Since the Prior Measurement Date The single discount rate decreased from 4.66% to 3.56%.

Note 15: Risk Management

A. Property and Liability

NORMA is a shared risk pool comprised of various cities. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered Self-Insurance Fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a Board of Trustees that consists of the mayor from each of the participating members.

Each entity must remain a member for at least three years from their commencement date. After the initial three years, each City may extend its term in three-year increments. Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$1,000 to \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the stop-loss coverage carried by the pool. Any losses over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2020, the City paid a total of \$141,941 in premiums from the general and sewer treatment funds. Financial information can be obtained by contacting the fiscal agent at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 15: Risk Management (continued)

B. Workers' Compensation Program

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

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

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

The City applied for and was accepted into the Retrospective Rating Plan in 2008. The City's workers' compensation self-insurance fund (an internal service fund) is used to account for and pay workers' compensation claims from the accumulated assets of the fund. The City's Retrospective Rating Plan provided for a \$200,000 catastrophic limit per claim and an aggregate claim limit of 200% fully insured premium that would have been payable by the City for the year in which the injury occurred. Effective January 1, 2018, the City is no longer part of the Retrospective Rating Plan and is part of the fully-insured program.

The claims liability of \$-0- at December 31, 2020 is based on the requirements of GASB Statement No. 30, which requires a liability for the unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the fund's claims liability amount in 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|-------------|-------------|
| Unpaid claims, beginning of year | \$ - | \$ 185,952 |
| Incurred claims and changes in estimate | - | (185,952) |
| Claims payments | - | - |
| Unpaid claims, end of year | \$ <u>-</u> | \$ <u>-</u> |

This accrual represents a significant estimate. It is reasonably possible that management's estimate of the liabilities will change in the near future.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 15: Risk Management (continued)

C. Health Insurance Benefits

On March 1, 2009 the City began providing health, dental and vision insurance to its employees through a self-insurance plan. The City pays a monthly administrative premium, including a stop-loss fee, for the self-insurance plan. The City contracts with a third party administrator to direct this program. During 2020, self-insurance was in effect for claims up to \$100,000 per covered individual. Any claims exceeding this threshold are covered by stop-loss.

The claims liability of \$157,576 as estimated by the third party administrator and reported in the hospitalization reserve fund (an internal service fund) at December 31, 2020 is based on the requirements of GASB Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2020 and 2019 were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|--------------------|--------------------|
| Unpaid claims, beginning of year | \$ 144,485 | \$ 150,046 |
| Incurred claims and changes in estimate | 1,379,331 | 1,360,320 |
| Claims payments | <u>(1,366,240)</u> | <u>(1,365,881)</u> |
| Unpaid claims, end of year | <u>\$ 157,576</u> | <u>\$ 144,485</u> |

Note 16: Contingencies

Grants

The City has received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the City at December 31, 2020.

Litigation

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

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 17: Jointly Governed Organizations

A. *Northeast Ohio Public Energy Council*

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 240 communities in 19 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the thirteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2020. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

B. *Chagrin/Southeast Council of Governments*

The Chagrin/Southeast Council of Governments (Council) operates the Chagrin/Southeast HazMat Response Team (Team). The Team was formed in 1990 to assist local fire departments in responding to incidents involving industrial chemicals. In 2020, the City contributed \$3,500 to the organization. The Chagrin/Southeast Council of Governments financial statements may be obtained by contacting the Finance Director of the Village of Glenwillow, Ohio.

C. *Southeast Regional Council of Governments*

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

1. *Southeast Emergency Communication Center*

Near the end of 2012, along with the City of Bedford, City of Garfield Heights, and City of Maple Heights, the City of Bedford Heights entered into a cooperative agreement through the SRCG to establish a sub-group of the SRCG for the purpose of constructing and operating a central safety forces dispatch facility to be known as the Southeast Emergency Communication Center (SECC). The joint dispatch center has allowed participating members to maintain state-of-the-art technologies and improve the overall efficiencies for the region's residents in a comparatively higher cost-effective manner. Effective March 1, 2016, the SECC split off from the SRCG and established itself as a council of governments formed under Chapter 167 of the Ohio Revised Code.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 17: Jointly Governed Organizations (continued)

C. Southeast Regional Council of Governments (continued)

1. Southeast Emergency Communication Center (continued)

The SECC operated from March 1, 2016 and thereon as a separate entity for the continued operation of the central safety forces dispatch center. The previous cooperative agreement and amendments to said agreement regarding the operation of the SECC remained in full force and effect after the separation. Effective August 1, 2017, the City of Bedford withdrew from the SECC. On May 30, 2018 the City of Maple Heights withdrew from the SECC. On May 31, 2018 the City of Garfield Heights withdrew from the SECC. The City of Bedford Height withdrew on June 1, 2018.

As of January 1, 2019, the SECC had no active employees and there was no payroll transactions for the entity. There has been minimal financial transactions during 2020 and the de facto Fiscal Officer continues to maintain records, monthly financial reports and bank reconciliations. The formal dissolution of the SECC is expected to occur in 2021. Financial statements of the SECC may be obtained by contacting the Director of Finance for the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

2. Southeast Area Law Enforcement Group

Also a part of the SRCG, the Southeast Area Law Enforcement Group (SEALE) is comprised of seven municipalities in southeastern Cuyahoga County for the purpose of providing assistance in the form of a SWAT team, Bomb Unit, Investigation Unit, Narcotics Unit, Crisis Negotiation Team, and Communication Unit. In 2020, the City contributed \$800 to the organization. The SEALE financial statements may be obtained by contacting the Finance Director of the City of Bedford, 165 Center Road, Bedford, Ohio 44146.

D. First Suburbs Consortium of Northeast Ohio Council of Governments

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

The FSC is governed by an Assembly made up on one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair, and other members elected in annual elections. The Governing Board oversees and manages the FSC. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2020, the City contributed \$1,750 to the FSC. Financial information can be obtained by contacting the FSC, 165 Center Road, Bedford, Ohio 44146.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 18: Construction Commitments and Other Significant Commitments

At December 31, 2020, the City had the following construction commitments:

| <u>Project</u> | <u>Contract and Contingency</u> | <u>Amount Incurred</u> | <u>Amount Remaining</u> |
|-------------------------------|-------------------------------------|----------------------------|-----------------------------|
| Community center roof project | \$ 414,555 | \$ 182,323 | \$ 232,232 |

Other significant commitments include the encumbrances outstanding for the general fund, fire levy fund, issue 24 levy fund, capital improvements fund, and other nonmajor governmental funds were as follows:

| | <u>Encumbrances</u> |
|-------------------------------------|---------------------|
| General | \$ 161,581 |
| Fire levy | 5,706 |
| Issue 24 levy | 111,533 |
| Capital improvements | 51,587 |
| Nonmajor governmental funds | <u>343,605</u> |
| Total other significant commitments | <u>\$ 674,012</u> |

Note 19: Tax Abatement Disclosures

As of December 31, 2020, the City provides tax incentives under two programs: the Community Reinvestment Area (CRA) and the Job Creation Grant Program.

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

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

For the year ended December 31, 2020, the City did not have any abated property taxes under the CRA program. Taxes are expected to be abated in 2021.

On March 21, 2006, the City created the Job Creation Grant Program. The purpose of the program is to provide an economic incentive for businesses to locate or expand within the City. For the year ended December 31, 2020, the City did not have any abated property taxes under this program.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 20: Asset Retirement Obligations

Ohio Administrative Code Section 1301-7-9 requires a City classified as an “owner” or “operator,” to remove from the ground any underground storage tank (UST) that is not in use for a year or more. A permit must first be obtained for that year it is not being used. Once the UST is removed, the soil in the UST cavity and excavated material must be tested for contamination. This asset retirement obligation (ARO) of \$35,000 associated with the City’s underground storage tanks was estimated by the City engineer. The remaining useful life of these USTs is 0 years.

Ohio Revised Code Section 6111.44 requires the City to submit any changes to their sewage system to the Ohio EPA for approval. Through this review process, the City would be responsible to address any public safety issues associated with their wastewater treatment facilities. At this time, due to limitations associated with the existing plant’s age and building materials within the plant, the engineer consulted would not have a reasonable estimate to calculate a liability for this year.

Note 21: Short Term Notes Payables

A summary of the notes transactions for the year ended December 31, 2020, follows:

| | <u>Balance</u> <u>12/31/19</u> | <u>Issued</u> | <u>Retired</u> | <u>Balance</u> <u>12/31/20</u> |
|--------------------------|-----------------------------------|---------------------|----------------|-----------------------------------|
| Governmental activities: | | | | |
| Bond anticipation notes | \$ - | \$ 1,000,000 | \$ - | \$ 1,000,000 |
| Premium | <u>-</u> | <u>6,450</u> | <u>-</u> | <u>6,450</u> |
| Total | <u>\$ -</u> | <u>\$ 1,006,450</u> | <u>\$ -</u> | <u>\$ 1,006,450</u> |

The building improvement general obligation bond anticipation notes were issued for the purpose of paying costs of building improvements to city facilities, including replacing roofs on various city buildings. The notes are dated October 8, 2020 and are due on October 7, 2021 at an interest rate of 1%. All of the notes are bond anticipation notes, and are backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds.

Note 22: COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The City’s investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. In addition, the impact on the City’s future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated. In 2020, the City received \$852,596 in COVID relief funding. Additional funding will be available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 23: Subsequent Events

In April 2021, the City was awarded an OPWC loan in the amount of \$286,000 in connection with the Libby Road (SR-17) Reconstruction.

City of Bedford Heights, Ohio

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

For the Last Seven Years

| | <u>2020 (1)</u> | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> | <u>2016 (1)</u> | <u>2015 (1)</u> | <u>2014 (1)</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| City's proportion of the net pension liability | 0.031639% | 0.031482% | 0.031651% | 0.030599% | 0.032857% | 0.040529% | 0.040529% |
| City's proportionate share of the net pension liability | \$ 6,253,663 | \$ 8,622,280 | \$ 4,965,430 | \$ 6,948,514 | \$ 5,691,248 | \$ 4,888,250 | \$ 4,777,841 |
| City's covered payroll | \$ 4,473,571 | \$ 4,264,005 | \$ 4,052,711 | \$ 4,012,007 | \$ 3,982,755 | \$ 4,963,119 | \$ 5,025,260 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 139.79% | 202.21% | 122.52% | 173.19% | 142.90% | 98.49% | 95.08% |
| Plan fiduciary net position as a percentage of the total pension liability | 82.17% | 74.70% | 84.66% | 77.25% | 81.08% | 86.45% | 86.36% |

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

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

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

For the Last Seven Years

| | <u>2020 (1)</u> | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> | <u>2016 (1)</u> | <u>2015 (1)</u> | <u>2014 (1)</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| City's proportion of the net pension asset | 0.017256% | 0.030144% | 0.031597% | 0.029607% | 0.037060% | 0.046508% | 0.046508% |
| City's proportionate share of the net pension asset | \$ 35,983 | \$ 33,709 | \$ 43,015 | \$ 16,479 | \$ 18,034 | \$ 17,907 | 4,880 |
| City's covered payroll | \$ 77,393 | \$ 129,266 | \$ 125,730 | \$ 116,050 | \$ 132,071 | \$ 164,580 | 166,641 |
| City's proportionate share of the net pension asset as a percentage of its covered payroll | 46.49% | 26.08% | 34.21% | 14.20% | 13.65% | 10.88% | 2.93% |
| Plan fiduciary net position as a percentage of the total pension asset | 145.28% | 126.64% | 137.28% | 116.55% | 116.90% | 114.83% | 104.56% |

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

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Police and Fire Pension Fund

For the Last Seven Years

| | <u>2020 (1)</u> | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> | <u>2016 (1)</u> | <u>2015 (1)</u> | <u>2014 (1)</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| City's proportion of the net pension liability | 0.193477% | 0.203641% | 0.207595% | 0.206499% | 0.224923% | 0.226690% | 0.226690% |
| City's proportionate share of the net pension liability | \$ 13,033,631 | \$ 16,622,487 | \$ 12,641,985 | \$ 13,079,438 | \$ 14,469,453 | \$ 11,743,487 | \$ 11,040,514 |
| City's covered payroll | \$ 4,617,437 | \$ 4,633,979 | \$ 4,069,636 | \$ 4,450,366 | \$ 4,541,021 | \$ 4,526,411 | \$ 4,410,703 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 282.27% | 358.71% | 313.08% | 293.90% | 318.64% | 259.44% | 250.31% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.89% | 63.07% | 70.91% | 68.36% | 66.77% | 71.71% | 73.00% |

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

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

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

For the Last Ten Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 610,346 | \$ 626,300 | \$ 596,961 | \$ 526,852 | \$ 481,441 |
| Contributions in relation to the contractually required contribution | <u>(610,346)</u> | <u>(626,300)</u> | <u>(596,961)</u> | <u>(526,852)</u> | <u>(481,441)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 4,359,614 | \$ 4,473,571 | \$ 4,264,005 | \$ 4,052,711 | \$ 4,012,007 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 14.00% | 13.00% | 12.00% |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Contractually required contribution | \$ 477,932 | \$ 595,574 | \$ 653,284 | \$ 499,072 | \$ 531,964 |
| Contributions in relation to the contractually required contribution | <u>(477,932)</u> | <u>(595,574)</u> | <u>(653,284)</u> | <u>(499,072)</u> | <u>(531,964)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 3,982,755 | \$ 4,963,119 | \$ 5,025,260 | \$ 4,990,719 | \$ 5,319,640 |
| Contributions as a percentage of covered payroll | 12.00% | 12.00% | 13.00% | 10.00% | 10.00% |

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

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

For the Last Ten Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually required contribution | \$ 8,011 | \$ 10,834 | \$ 18,097 | \$ 16,345 | \$ 13,926 |
| Contributions in relation to the contractually required contribution | <u>(8,011)</u> | <u>(10,834)</u> | <u>(18,097)</u> | <u>(16,345)</u> | <u>(13,926)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 57,221 | \$ 77,393 | \$ 129,266 | \$ 125,730 | \$ 116,050 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 14.00% | 13.00% | 12.00% |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Contractually required contribution | \$ 15,849 | \$ 19,750 | \$ 21,663 | \$ 16,550 | \$ 17,640 |
| Contributions in relation to the contractually required contribution | <u>(15,849)</u> | <u>(19,750)</u> | <u>(21,663)</u> | <u>(16,550)</u> | <u>(17,640)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 132,071 | \$ 164,580 | \$ 166,641 | \$ 165,495 | \$ 176,403 |
| Contributions as a percentage of covered payroll | 12.00% | 12.00% | 13.00% | 10.00% | 10.00% |

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

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

For the Last Ten Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 966,098 | \$ 975,014 | \$ 977,475 | \$ 860,852 | \$ 944,338 |
| Contributions in relation to the contractually required contribution | <u>(966,098)</u> | <u>(975,014)</u> | <u>(977,475)</u> | <u>(860,852)</u> | <u>(944,338)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 4,576,733 | \$ 4,617,437 | \$ 4,633,979 | \$ 4,069,636 | \$ 4,450,366 |
| Contributions as a percentage of covered payroll | 21.11% | 21.12% | 21.09% | 21.15% | 21.22% |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Contractually required contribution | \$ 962,413 | \$ 959,297 | \$ 799,621 | \$ 646,326 | \$ 645,138 |
| Contributions in relation to the contractually required contribution | <u>(962,413)</u> | <u>(959,297)</u> | <u>(799,621)</u> | <u>(646,326)</u> | <u>(645,138)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 4,541,021 | \$ 4,526,411 | \$ 4,410,703 | \$ 4,323,601 | \$ 4,306,682 |
| Contributions as a percentage of covered payroll | 21.19% | 21.19% | 18.13% | 14.95% | 14.98% |

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net OPEB Liability Ohio Public Employees Retirement System

For the Last Four Years

| | <u>2020 (1)</u> | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> |
|---|-----------------|-----------------|-----------------|-----------------|
| City's proportion of the net OPEB liability | 0.030162% | 0.030332% | 0.030550% | 0.029579% |
| City's proportionate share of the net OPEB liability | \$ 4,166,155 | \$ 3,954,576 | \$ 3,317,506 | \$ 2,987,552 |
| City's covered payroll | \$ 4,399,636 | \$ 4,411,800 | \$ 4,191,014 | \$ 4,144,636 |
| City's proportionate share of the net OPEB liability as a percentage of its covered payroll | 94.69% | 89.64% | 79.16% | 72.08% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 47.80% | 46.33% | 54.14% | n/a |

(1) Information prior to 2017 is not available. Amounts presented for each year were determined as of the City's measurement date which is December 31 of the prior year.

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net OPEB Liability Ohio Police and Fire Pension Fund

For the Last Four Years

| | <u>2020 (1)</u> | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> |
|---|-----------------|-----------------|-----------------|-----------------|
| City's proportion of the net OPEB liability | 0.193477% | 0.203641% | 0.207595% | 0.206499% |
| City's proportionate share of the net OPEB liability | \$ 1,911,112 | \$ 1,854,463 | \$ 11,762,042 | \$ 9,802,043 |
| City's covered payroll | \$ 4,617,437 | \$ 4,633,979 | \$ 4,069,636 | \$ 4,450,366 |
| City's proportionate share of the net OPEB liability as a percentage of its covered payroll | 41.39% | 40.02% | 289.02% | 220.25% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 47.10% | 46.57% | 14.13% | n/a |

(1) Information prior to 2017 is not available. Amounts presented for each year were determined as of the City's measurement date which is December 31 of the prior year.

City of Bedford Heights, Ohio

Required Supplementary Information Schedule of the City's OPEB Contributions Ohio Public Employee Retirement System

For the Last Five Years

| | <u>2020 (1)</u> | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> | <u>2016 (1)</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually required contribution | \$ 763 | \$ 1,154 | \$ 739 | \$ 41,910 | \$ 82,893 |
| Contributions in relation to the contractually required contribution | <u>(763)</u> | <u>(1,154)</u> | <u>(739)</u> | <u>(41,910)</u> | <u>(82,893)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 4,435,914 | \$ 4,399,636 | \$ 4,411,800 | \$ 4,191,014 | \$ 4,144,636 |
| Contributions as a percentage of covered payroll | 0.02% | 0.03% | 0.02% | 1.00% | 2.00% |

(1) Information prior to 2016 is not available.

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

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

Last Ten Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|-----------------|-----------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 22,883 | \$ 23,088 | \$ 23,170 | \$ 20,349 | \$ 22,252 |
| Contributions in relation to the contractually required contribution | <u>(22,883)</u> | <u>(23,088)</u> | <u>(23,170)</u> | <u>(20,349)</u> | <u>(22,252)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 4,576,733 | \$ 4,617,437 | \$ 4,633,979 | \$ 4,069,636 | \$ 4,450,366 |
| Contributions as a percentage of covered payroll | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Contractually required contribution | \$ 22,705 | \$ 22,632 | \$ 159,667 | \$ 291,843 | \$ 290,701 |
| Contributions in relation to the contractually required contribution | <u>(22,705)</u> | <u>(22,632)</u> | <u>(159,667)</u> | <u>(291,843)</u> | <u>(290,701)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered payroll | \$ 4,541,021 | \$ 4,526,411 | \$ 4,410,703 | \$ 4,323,601 | \$ 4,306,682 |
| Contributions as a percentage of covered payroll | 0.50% | 0.50% | 3.62% | 6.75% | 6.75% |

The accompanying notes are an integral part of the required supplementary information

City of Bedford Heights, Ohio

Notes to the Required Supplementary Information

For the Year ended December 31, 2020

Note 1: Net Pension Liability

Changes in Assumptions – OPERS

Amounts reported in the required supplementary information for OPERS Traditional and Combined Plans incorporate changes in assumptions used by OPERS in calculating the pension liability. These assumptions are presented below for the periods indicated:

Key Methods and Assumptions in Valuing Total Pension Liability – 2020

| | OPERS <u>Traditional plan</u> | OPERS <u>Combined plan</u> |
|--|--|---|
| Valuation Date | December 31, 2019 | December 31, 2019 |
| Experience Study | 5-year period ended December 31, 2015 | 5-year period ended December 31, 2015 |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.20% | 7.20% |
| Wage Inflation | 3.25% | 3.25% |
| Projected Salary Increases, including 3.25% inflation | 3.25 to 10.75% | 3.25 to 8.25% |
| COLA or Ad Hoc COLA: | | |
| Pre-Jan 7, 2013 Retirees | 3% Simple | 3% Simple |
| Post-Jan 7, 2013 Retirees | 1.40% Simple through 2020 then 2.15% Simple | 1.40% Simple though 2020 then 2.15% Simple |

Key Methods and Assumptions in Valuing Total Pension Liability – 2019

| | OPERS <u>Traditional plan</u> | OPERS <u>Combined plan</u> |
|--|---|--|
| Valuation Date | December 31, 2018 | December 31, 2018 |
| Experience Study | 5-year period ended December 31, 2015 | 5-year period ended December 31, 2015 |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.20% | 7.20% |
| Wage Inflation | 3.25% | 3.25% |
| Projected Salary Increases, including 3.25% inflation | 3.25 to 10.75% | 3.25 to 8.25% |
| COLA or Ad Hoc COLA: | | |
| Pre-Jan 7, 2013 Retirees | 3% Simple | 3% Simple |
| Post-Jan 7, 2013 Retirees | 3% Simple through 2018 then 2.15% Simple | 3% Simple though 2018 then 2.15% Simple |

City of Bedford Heights, Ohio

Notes to the Required Supplementary Information

For the Year ended December 31, 2020

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OPERS (continued)

Key Methods and Assumptions in Valuing Total Pension Liability – 2017-2018

| | OPERS <u>Traditional plan</u> | OPERS <u>Combined plan</u> |
|--|---|--|
| Valuation Date | December 31, 2017 | December 31, 2017 |
| Experience Study | 5-year period ended December 31, 2015 | 5-year period ended December 31, 2015 |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.50% | 7.50% |
| Wage Inflation | 3.25% | 3.25% |
| Projected Salary Increases, including 3.25% inflation | 3.25 to 10.75% | 3.25 to 8.25% |
| COLA or Ad Hoc COLA: | | |
| Pre-Jan 7, 2013 Retirees | 3% Simple | 3% Simple |
| Post-Jan 7, 2013 Retirees | 3% Simple through 2018 then 2.15% Simple | 3% Simple though 2018 then 2.15% Simple |

Key Methods and Assumptions in Valuing Total Pension Liability – 2016 and prior

| | OPERS <u>Traditional plan</u> | OPERS <u>Combined plan</u> |
|--|--|---|
| Valuation Date | December 31, 2015 | December 31, 2015 |
| Experience Study | 5-year period ended December 31, 2010 | 5-year period ended December 31, 2010 |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 8.00% | 8.00% |
| Wage Inflation | 3.75% | 3.75% |
| Projected Salary Increases, including 3.75% inflation | 4.25 to 10.05% | 4.25 to 8.05% |
| COLA or Ad Hoc COLA: | | |
| Pre-Jan 7, 2013 Retirees | 3% Simple | 3% Simple |
| Post-Jan 7, 2013 Retirees | 3% Simple through 2018 then 2.8% Simple | 3% Simple though 2018 then 2.8% Simple |

Mortality rates - Amounts reported beginning in 2017 use mortality rates based on the RP-2014. Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

City of Bedford Heights, Ohio

Notes to the Required Supplementary Information

For the Year ended December 31, 2020

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OPERS (continued)

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

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

Changes in Assumptions – OP&F

Amounts reported for 2018 incorporate changes in assumptions used by OP&F in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and prior are presented below:

| | Beginning in 2018 | 2017 and Prior |
|----------------------------|--|--|
| Valuation Date | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 8.00% | 8.25% |
| Projected Salary Increases | 3.75% to 10.50% | 4.25% to 11.00% |
| Payroll Growth | Inflation rate of 2.75% plus productivity increase rate of 0.50% | Inflation rate of 3.25% plus productivity increase rate of 0.50% |
| Cost of Living Adjustments | 3.00% simple; 2.20% simple for increased based on the lesser of the increase in CPI and 3% | 3.00% simple; 2.60% simple for increased based on the lesser of the increase in CPI and 3% |

Amounts reported for 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

| Age | Police | Fire |
|------------|--------|------|
| 67 or less | 77% | 68% |
| 68-77 | 105% | 87% |
| 78 and up | 115% | 120% |

City of Bedford Heights, Ohio

Notes to the Required Supplementary Information

For the Year ended December 31, 2020

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OP&F (continued)

Amounts reported for 2018 use valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 59 or less | 35% | 35% |
| 60-69 | 60% | 45% |
| 70-79 | 75% | 70% |
| 80 and up | 100% | 90% |

Amounts reported for 2017 and prior use valuation, rates of death were 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.

Note 2: Net OPEB Liability

Changes in Assumptions – OPERS

For 2020, the single discount rate changed from 3.96% in 2019 to 3.16%. For 2020, the municipal bond rate changed from 3.71% to 2.75%. For 2020, the health care cost trend rate changed from 10% initial, 3.25%, ultimate in 2029 to 10.5% initial, 3.5% ultimate in 2030.

For 2019, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5% to 6.0%. For 2019, the single discount rate changed from 3.85% in 2018 to 3.96%. Prior to 2018, the single discount rate was 4.23%. For 2019, the municipal bond rate changed from 3.31% to 3.71%. For 2019, the health care cost trend rate changed from 7.5% initial, 3.25%, ultimate in 2028 to 10% initial, 3.25% ultimate in 2029.

Changes in Assumptions – OP&F

For 2019, the single discount rate changed from 4.66% to 3.56%.

For 2019, the single discount rate changed from 3.24% to 4.66%.

For 2018, the single discount rate changed from 3.79% to 3.24%.

City of Bedford Heights, Ohio

Notes to the Required Supplementary Information

For the Year ended December 31, 2020

Note 2: Net OPEB Liability (continued)

Changes in Benefit Terms – OP&F

Beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5%.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City of Bedford Heights
Cuyahoga County
5661 Perkins Road
Bedford Heights, Ohio 44146-2597

To the Members of the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2020, 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 27, 2022, wherein we noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. We also noted the City implemented Governmental Accounting Standards Board (GASB) Statement Number 83, *Certain Asset Retirement Obligations* and GASB Statement Number 84, *Fiduciary Activities*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

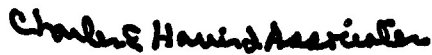
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 27, 2022.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
October 27, 2022

OHIO AUDITOR OF STATE KEITH FABER



CITY OF BEDFORD HEIGHTS

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/6/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov