



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF SOUTH EUCLID  
CUYAHOGA COUNTY  
DECEMBER 31, 2018**

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CUYAHOGA COUNTY  
DECEMBER 31, 2018

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Euclid, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Euclid, Cuyahoga County, Ohio, as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparisons for the General and Safety Forces Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 23 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

March 9, 2020

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**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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The discussion and analysis of the City of South Euclid's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider information presented here in conjunction with the additional information contained in the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

*Financial highlights for 2018 are as follows:*

- During 2018, the City of South Euclid saw a slight decrease in property taxes. This decrease can be attributed to the leveling off of the new safety forces levy. This is the second full year of collections on the safety levy. This levy is expected to bring the City approximately \$2 million per year for three years and will be used for safety forces including police, fire, emergency medical services and dispatch. The safety forces levy monies will be accounted for in the safety forces levy special revenue fund.
- The increase in assets and deferred inflows of the City coupled with the decrease in liabilities and deferred outflows at December 31, 2018 resulted in the City's decrease in net position from 2017 to 2018. This is due to decreases in cash and cash equivalents as expenses outpaced revenues.
- The City made capital purchases for building improvements, equipment and vehicles as well as infrastructure improvements as they continue to replace aging assets.
- As of December 31, 2018, the City has nine lots on Greenvale which are being held for resale. Assets held for resale represent land purchased by the City which will be sold for development purposes and homes purchased and repaired to be resold under the Community Development in-fill housing project.

**Using this Annual Financial Report**

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

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

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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

*Statement of Net Position and the Statement of Activities*

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

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

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

***Reporting the City of South Euclid's Most Significant Funds***

*Fund Financial Statements*

The analysis of the City's major funds begins on page 12. Fund financial reports provide detailed information about the City's major funds. The City of South Euclid has established many funds that account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. The City's major funds are the general fund, the safety forces levy special revenue fund and the flood control capital projects fund.

*Governmental Funds*

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

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

**Government-wide Financial Analysis**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the City's net position and the changes in that position. The change in position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. As can be seen from the decrease in net position, the overall financial position has decreased. This decrease can be attributed to the decrease in cash and cash equivalents as the City continues to pay down debt while trying to build cash reserves.

**The City of South Euclid as a Whole**

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2018 compared to 2017.

**Table 1**  
*Net Position*

	Governmental Activities		
	2018	2017	Change
<b>Assets</b>			
Current and Other Assets	\$29,189,057	\$29,320,928	(\$131,871)
Net Pension Asset	29,782	0	29,782
Capital Assets, Net	46,557,745	45,792,827	764,918
<b>Total Assets</b>	<b>75,776,584</b>	<b>75,113,755</b>	<b>662,829</b>
<b>Deferred Outflows of Resources</b>			
Pension	3,449,198	5,631,317	(2,182,119)
OPEB	1,754,377	67,951	1,686,426
Deferred Charge on Refunding	0	10,584	(10,584)
<b>Total Deferred Outflows of Resources</b>	<b>5,203,575</b>	<b>5,709,852</b>	<b>(506,277)</b>
<b>Liabilities</b>			
Current Liabilities	2,050,918	2,729,164	678,246
Long-Term Liabilities:			
Due Within One Year	963,224	1,627,527	664,303
Due in More Than One Year			
Net Pension Liability	20,981,672	23,924,312	2,942,640
Net OPEB Liability	18,326,684	15,921,501	(2,405,183)
Other Amounts	20,173,525	21,116,629	943,104
<b>Total Liabilities</b>	<b>\$62,496,023</b>	<b>\$65,319,133</b>	<b>\$2,823,110</b>

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

**Table 1**  
*Net Position (Continued)*

	Governmental Activities		
	2018	2017	Change
<b>Deferred Inflows of Resources</b>			
Property Taxes	\$5,931,997	\$5,494,807	(\$437,190)
Payments in Lieu of Taxes	493,785	384,208	(109,577)
Pension	1,938,096	115,779	(1,822,317)
OPEB	654,017	0	(654,017)
Total Deferred Inflows of Resources	<u>9,017,895</u>	<u>5,994,794</u>	<u>(3,023,101)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	29,635,679	27,588,291	2,047,388
Restricted for:			
Capital Projects	5,029,186	5,474,024	(444,838)
Law Enforcement	741,546	1,030,581	(289,035)
Street Maintenance	902,798	833,167	69,631
Street Lighting	580,574	559,826	20,748
Sewer Maintenance	503,385	486,963	16,422
Community Development	21,934	21,934	0
Other Purposes	1,320,767	657,098	663,669
Unrestricted	<u>(29,269,628)</u>	<u>(27,142,204)</u>	<u>(2,127,424)</u>
<i>Total Net Position</i>	<u><u>\$9,466,241</u></u>	<u><u>\$9,509,680</u></u>	<u><u>(\$43,439)</u></u>

The net pension liability (NPL) is one of the largest liabilities reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to 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 and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board 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 and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and 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:

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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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 and 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 and other postemployment benefits. 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 pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare 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 and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in 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 liability and the net OPEB liability are 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 an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability (asset) and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$25,363,230 to \$9,509,680.

Total net position decreased from 2017 to 2018 due to decreases in current and other assets combined with a decrease in deferred outflows of resources and an increase in deferred inflows of resources. The increase in capital assets was primarily due to building improvements, purchases of additional vehicles and equipment and continuing capital projects exceeding depreciation and deletions.

Total liabilities decreased due to current liabilities such as contracts payable, retainage payable and notes payable decreasing as well as the continued pay down of long-term debt and decrease in net pension liability.

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

Table 2 shows the changes in net position for the years ended December 31, 2018 and 2017 and corresponds to the Statement of Activities on page 17.

**Table 2**  
*Changes in Net Position*

	Governmental Activities		
	2018	2017	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and			
Operating Assessments	\$5,173,281	\$5,071,187	\$102,094
Operating Grants and Contributions	1,484,153	999,674	484,479
Capital Grants	708,383	857,177	(148,794)
Total Program Revenues	7,365,817	6,928,038	437,779
General Revenues:			
Property Taxes	6,130,952	6,220,497	(89,545)
Income Taxes	11,141,278	10,437,452	703,826
Grants and Entitlements	1,657,035	1,643,832	13,203
Payments in Lieu of Taxes	493,785	340,840	152,945
Unrestricted Contributions	12,162	17,027	(4,865)
Investment Earnings	88,217	70,333	17,884
Gain on Sale of Capital Assets	24,940	6,017	18,923
Gain on Sale of Land Held for Resale	0	684,813	(684,813)
Miscellaneous	588,303	424,148	164,155
Total General Revenues	20,136,672	19,844,959	291,713
<i>Total Revenues</i>	27,502,489	26,772,997	729,492
<b>Program Expenses</b>			
General Government:			
Legislative and Executive	2,924,849	2,808,446	(116,403)
Judicial System	614,843	641,517	26,674
Security of Persons and Property:			
Police	7,092,862	6,492,596	(600,266)
Fire	6,106,176	5,104,724	(1,001,452)
Public Health Services	139,749	130,813	(8,936)
Leisure Time Activities	306,788	348,606	41,818
Community Development	414,184	1,468,739	1,054,555
Building Department	1,109,486	1,132,397	22,911
Transportation	3,913,831	4,263,777	349,946
Basic Utility Services	3,938,245	3,046,669	(891,576)
Swimming Pools	279,209	281,629	2,420
Interest and Fiscal Charges	705,706	752,418	46,712
Total Program Expenses	27,545,928	26,472,331	(1,073,597)
<i>Change in Net Position</i>	(43,439)	300,666	(344,105)
<i>Net Position Beginning of Year</i>	9,509,680	N/A	
<i>Net Position End of Year</i>	\$9,466,241	\$9,509,680	(\$43,439)

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
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The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$67,951 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$1,405,832. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$27,545,928
Negative OPEB expense under GASB 75	(1,405,832)
2018 contractually required contribution	33,058
Adjusted 2018 program expenses	26,173,154
Total 2017 program expenses under GASB 45	26,472,331
Increase in program expenses not related to OPEB	(\$299,177)

Program revenues increased in 2018 mainly due to an increase in operating grants and contributions due to a large influx of property into the City's land bank. This amount represents the fair market value of the property at the time the property is acquired. This was offset by a decrease in capital grants as fewer capital projects were underway. General revenues increased mainly due to increases in income taxes as well as additional payments in lieu of taxes and miscellaneous revenues being received. Total program expenses increased due to the increase in costs of providing legislative and executive, police, fire and basic utility services.

***Governmental Activities***

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate was 1.5 percent from 1984 through 2005. In August 2005 the voters of South Euclid passed an income tax rate increase to 2.00 percent. The new rate of 2.00 percent became effective January 1, 2006. Residents of the City who work in another community receive a 0.75 percent credit on income earned outside the City and paid to another municipality. The City experienced an increase in income tax collections in 2018. The City remains committed to collecting all taxes due to it and during 2019 working in conjunction with the Regional Income Tax Agency to identify and assess individuals who were delinquent in filing their income tax returns. Property tax revenues decreased in 2018 and still remained the City's second largest source of revenues. Revenues from grants and entitlements represented approximately eight percent of total general revenues. These funds are received from the State of Ohio in the form of local government assistance.

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

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

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

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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**The City's Funds**

Information about the City's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. Overall, governmental funds had an increase in both total revenues and total expenditures from 2017. Revenues increased due to increases in property and income taxes, special assessments, interest, fees, licenses and permits and fines and forfeitures revenues collected. Expenditures increased due to increased capital expenditures as well as basic utility services, building department, fire and transportation expenditures during 2018. The general fund experienced increases in revenues from 2017 in income taxes, intergovernmental, interest, fees licenses and permits and fines and forfeitures revenues. The City experienced increases in general fund expenditures compared to 2017 levels. The increases in expenditures can be attributed to a general increase in operating expenditures. General fund expenditures and other financing uses exceeded revenues, resulting in the general fund balance decreasing from 2017.

During 2018, the safety forces levy special revenue fund balance increased as a result of revenues outpacing police and fire expenditures. The flood control capital projects fund balance decreased as a result of expenditures exceeding revenues as capital projects increased during the year.

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at Finance Committee meetings, which are open to the public, the budget is adopted at an object level by City Council at a regularly held council meeting. Council must approve any revisions in the budget that alter the object level or the total appropriations for any department or fund.

During the course of 2018, the City amended its general fund budget numerous times. The actual revenue amount exceeded the final budget. Final appropriations exceeded actual expenditures. This variance was due primarily to the conservative budgeting techniques of the City and a concerted effort to reduce spending at the end of the year.

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

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

**Capital Assets and Long-Term Obligations**

*Capital Assets*

Table 3 shows 2018 balances of capital assets as compared to 2017.

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

	Governmental Activities	
	2018	2017
Land	\$517,278	\$517,278
Construction in Progress	1,310,862	883,620
Buildings and Improvements	1,093,851	1,124,145
Equipment	979,570	1,093,080
Vehicles	1,753,253	674,372
Infrastructure		
Streets	15,632,013	16,108,273
Bridges, Sewers and Culverts	25,178,536	25,297,548
Traffic Signals	92,382	94,511
Total Capital Assets	\$46,557,745	\$45,792,827

The increase in capital assets was primarily due to additions of buildings and improvements, vehicles, equipment and continuing capital construction projects exceeding an additional year of depreciation coupled with deletions of vehicles during the year.

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

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

The City Engineer maintains a comprehensive listing of all the streets, sewer and water lines and bridges and culverts within the City. Each spring, this inventory is updated with current conditions and recommendations made for repair or replacement. As mentioned before, the City has been very aggressive in pursuing funding to assist in the financing of infrastructure projects. For more information about the City's capital assets, see Note 10 to the basic financial statements.

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

*Long-Term Obligations*

Table 4 summarizes the long-term obligations outstanding.

**Table 4**  
*Outstanding Long-Term Obligations at Year End*

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
General Obligation Bonds	\$14,087,225	\$15,246,307
Special Obligation Bonds	1,455,000	1,560,000
OPWC Loans	2,217,795	2,378,151
OWDA Loans	981,813	1,087,677
OAQDA Loans	465,952	516,901
Bond Anticipation Note	500,460	700,976
Net Pension Liability	20,981,672	23,924,312
Net OPEB Liability	18,326,684	15,921,501
Police and Fire Pension Liability	229,742	239,225
Capital Lease	188,114	91,466
Compensated Absences	1,010,648	923,453
<b>Total</b>	<u><u>\$60,445,105</u></u>	<u><u>\$62,589,969</u></u>

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

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

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

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

The City of South Euclid's overall legal debt margin is \$35,874,601 with an unvoted debt margin of \$15,383,401 on December 31, 2018. For more information about the City's long-term obligations, see Note 13 to the basic financial statements.

**City of South Euclid, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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**Current Financial Related Activities**

The City of South Euclid has remained strong despite the challenging environment of the State and national economy. The administration has provided consistent fiscal management during this time, holding general operating expenses in check while maintaining City services at a high level in 2018. With decreasing revenues from Federal and State sources and increasing expenses, the City will continue to make the necessary adjustments in its day to day operations to meet and overcome any future challenges. Expenses can only be reduced so much without jeopardizing the safety, health and welfare of the residents. The administration will continue to monitor the revenues and expenses and make appropriate adjustments as needed. The administration continues toward its goal of keeping all residents and other interested parties fully informed as to the financial status of the City of South Euclid.

**Contacting the City of South Euclid's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Wendt, Finance Director, at the City of South Euclid, 1349 South Green Road, South Euclid, Ohio 44121-3985, (216) 381-0400, or e-mail to [Finance@seuclid.com](mailto:Finance@seuclid.com).

**City of South Euclid, Ohio**  
*Statement of Net Position*  
*December 31, 2018*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$9,024,939
Cash and Cash Equivalents In Segregated Accounts	183,083
Accounts Receivable	49,583
Accrued Interest Receivable	26,655
Intergovernmental Receivable	1,103,692
Prepaid Items	107,318
Materials and Supplies Inventory	204,155
Income Taxes Receivable	5,890,590
Property Taxes Receivable	6,687,366
Special Assessments Receivable	3,740,491
Payments in Lieu of Taxes Receivable	493,785
Assets Held for Resale	62,800
Economic Development Properties	1,614,600
Net Pension Asset	29,782
Nondepreciable Capital Assets	1,828,140
Depreciable Capital Assets	44,729,605
<i>Total Assets</i>	<i>75,776,584</i>
<b>Deferred Outflows of Resources</b>	
Pension	3,449,198
OPEB	1,754,377
<i>Total Deferred Outflows of Resources</i>	<i>5,203,575</i>
<b>Liabilities</b>	
Accounts Payable	293,082
Accrued Wages	413,984
Contracts Payable	128,392
Intergovernmental Payable	240,155
Accrued Interest Payable	72,690
Vacation Benefits Payable	702,431
Notes Payable	200,184
Long-Term Liabilities:	
Due Within One Year	963,224
Due In More Than One Year	
Net Pension Liability (See Note 17)	20,981,672
Net OPEB Liability (See Note 18)	18,326,684
Other Amounts	20,173,525
<i>Total Liabilities</i>	<i>62,496,023</i>
<b>Deferred Inflows of Resources</b>	
Property Taxes	5,931,997
Payments in Lieu of Taxes	493,785
Pension	1,938,096
OPEB	654,017
<i>Total Deferred Inflows of Resources</i>	<i>9,017,895</i>
<b>Net Position</b>	
Net Investment in Capital Assets	29,635,679
Restricted for:	
Capital Projects	5,029,186
Law Enforcement	741,546
Street Maintenance	902,798
Street Lighting	580,574
Sewer Maintenance	503,385
Community Development	21,934
Other Purposes	1,320,767
Unrestricted (Deficit)	(29,269,628)
<i>Total Net Position</i>	<i>\$9,466,241</i>

See accompanying notes to the basic financial statements



**City of South Euclid, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2018*

	General	Safety Forces Levy	Flood Control	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$5,752,193	\$50,289	\$894,874	\$2,327,583	\$9,024,939
Cash and Cash Equivalents In Segregated Accounts	183,083	0	0	0	183,083
Materials and Supplies Inventory	81,218	0	0	122,937	204,155
Accrued Interest Receivable	26,655	0	0	0	26,655
Accounts Receivable	33,697	0	15,307	579	49,583
Interfund Receivable	700,000	0	0	0	700,000
Intergovernmental Receivable	570,541	35,240	0	497,911	1,103,692
Prepaid Items	107,318	0	0	0	107,318
Income Taxes Receivable	5,890,590	0	0	0	5,890,590
Property Taxes Receivable	3,562,673	2,093,746	0	1,030,947	6,687,366
Payments in Lieu of Taxes Receivable	0	0	0	493,785	493,785
Assets Held for Resale	0	0	0	62,800	62,800
Special Assessments Receivable	105,337	0	2,642,873	992,281	3,740,491
<i>Total Assets</i>	<u>\$17,013,305</u>	<u>\$2,179,275</u>	<u>\$3,553,054</u>	<u>\$5,528,823</u>	<u>\$28,274,457</u>
<b>Liabilities</b>					
Accounts Payable	\$181,310	\$0	\$3,088	\$108,684	\$293,082
Accrued Wages	386,419	0	0	27,565	413,984
Contracts Payable	128,392	0	0	0	128,392
Intergovernmental Payable	55,694	154,634	466	29,361	240,155
Interfund Payable	0	0	0	700,000	700,000
Accrued Interest Payable	0	0	0	3,376	3,376
Notes Payable	0	0	0	200,184	200,184
<i>Total Liabilities</i>	<u>751,815</u>	<u>154,634</u>	<u>3,554</u>	<u>1,069,170</u>	<u>1,979,173</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	3,160,253	1,857,248	0	914,496	5,931,997
Payments in Lieu of Taxes	0	0	0	493,785	493,785
Unavailable Revenue	6,065,909	271,738	2,642,873	1,534,931	10,515,451
<i>Total Deferred Inflows of Resources</i>	<u>9,226,162</u>	<u>2,128,986</u>	<u>2,642,873</u>	<u>2,943,212</u>	<u>16,941,233</u>
<b>Fund Balances</b>					
Nonspendable	188,536	0	0	122,937	311,473
Restricted	0	0	906,627	2,110,016	3,016,643
Assigned	4,366,970	0	0	0	4,366,970
Unassigned (Deficit)	2,479,822	(104,345)	0	(716,512)	1,658,965
<i>Total Fund Balances</i>	<u>7,035,328</u>	<u>(104,345)</u>	<u>906,627</u>	<u>1,516,441</u>	<u>9,354,051</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$17,013,305</u>	<u>\$2,179,275</u>	<u>\$3,553,054</u>	<u>\$5,528,823</u>	<u>\$28,274,457</u>

See accompanying notes to the basic financial statement:

**City of South Euclid, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2018*

<b>Total Governmental Fund Balances</b>	\$9,354,051
 <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.	46,557,745
Economic development properties are not financial resources and therefore are not reported in the funds.	1,614,600
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	755,369
Income Taxes	5,089,947
Special Assessments	3,740,491
Intergovernmental	929,644
<b>Total</b>	<b>10,515,451</b>
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(69,314)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(702,431)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Net Pension Asset	29,782
Deferred Outflows - Pension	3,449,198
Deferred Inflows - Pension	(1,938,096)
Net Pension Liability	(20,981,672)
Deferred Outflows - OPEB	1,754,377
Net OPEB Liability	(18,326,684)
Deferred Inflows - OPEB	(654,017)
<b>Total</b>	<b>(36,667,112)</b>
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds Payable	(14,087,225)
Special Obligation Bonds Payable	(1,455,000)
OPWC Loans Payable	(2,217,795)
OWDA Loans Payable	(981,813)
OAQDA Loans Payable	(465,952)
Bond Anticipation Notes Payable	(500,460)
Police and Fire Pension Loan Payable	(229,742)
Capital Leases Payable	(188,114)
Compensated Absences	(1,010,648)
<b>Total</b>	<b>(21,136,749)</b>
<i>Net Position of Governmental Activities</i>	<b>\$9,466,241</b>

See accompanying notes to the basic financial statements

**City of South Euclid, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2018*

	General	Safety Forces Levy	Flood Control	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$3,315,677	\$1,899,958	\$0	\$919,860	\$6,135,495
Income Taxes	10,607,684	0	0	0	10,607,684
Special Assessments	70,418	0	2,035,019	783,676	2,889,113
Intergovernmental	1,664,717	70,480	0	1,619,961	3,355,158
Interest	88,217	0	0	0	88,217
Fees, Licenses and Permits	763,933	0	0	0	763,933
Fines and Forfeitures	839,983	0	0	38,835	878,818
Rentals	24,244	0	0	7,500	31,744
Charges for Services	343,706	0	0	303,416	647,122
Contributions and Donations	12,162	0	0	0	12,162
Payments in Lieu of Taxes	0	0	0	493,785	493,785
Other	121,551	0	431,793	34,959	588,303
<i>Total Revenues</i>	<u>17,852,292</u>	<u>1,970,438</u>	<u>2,466,812</u>	<u>4,201,992</u>	<u>26,491,534</u>
<b>Expenditures</b>					
Current:					
General Government:					
Legislative and Executive	2,699,662	0	0	250	2,699,912
Judicial System	608,212	0	0	0	608,212
Security of Persons and Property:					
Police	4,777,615	982,600	0	165,772	5,925,987
Fire	3,695,833	968,908	0	106,958	4,771,699
Public Health Services	139,749	0	0	0	139,749
Leisure Time Activities	261,131	0	0	0	261,131
Community Development	278,896	0	0	0	278,896
Building Department	999,408	0	0	0	999,408
Transportation	1,245,338	0	0	935,079	2,180,417
Basic Utility Services	1,366,352	0	0	833,197	2,199,549
Swimming Pools	222,923	0	0	0	222,923
Capital Outlay	0	0	1,866,866	2,794,786	4,661,652
Debt Service:					
Principal Retirement	9,483	0	729,175	1,587,426	2,326,084
Interest and Fiscal Charges	10,067	0	49,538	724,391	783,996
<i>Total Expenditures</i>	<u>16,314,669</u>	<u>1,951,508</u>	<u>2,645,579</u>	<u>7,147,859</u>	<u>28,059,615</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,537,623</u>	<u>18,930</u>	<u>(178,767)</u>	<u>(2,945,867)</u>	<u>(1,568,081)</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from Sale of Capital Assets	37,130	0	0	0	37,130
OPWC Loan Issued	0	0	0	40,860	40,860
Inception of Capital Lease	0	0	0	170,220	170,220
Bond Anticipation Note Issued	0	0	0	500,000	500,000
Premium on Bond Anticipation Note Issued	0	0	0	1,840	1,840
Transfers In	0	0	0	1,791,003	1,791,003
Transfers Out	(1,791,003)	0	0	0	(1,791,003)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,753,873)</u>	<u>0</u>	<u>0</u>	<u>2,503,923</u>	<u>750,050</u>
<i>Net Change in Fund Balances</i>	<u>(216,250)</u>	<u>18,930</u>	<u>(178,767)</u>	<u>(441,944)</u>	<u>(818,031)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>7,251,578</u>	<u>(123,275)</u>	<u>1,085,394</u>	<u>1,958,385</u>	<u>10,172,082</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$7,035,328</u>	<u>(\$104,345)</u>	<u>\$906,627</u>	<u>\$1,516,441</u>	<u>\$9,354,051</u>

See accompanying notes to the basic financial statements

**City of South Euclid, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2018*

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**Net Change in Fund Balances - Total Governmental Funds** (\$818,031)

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

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

Capital Asset Additions	2,896,465
Economic Development Properties Addition	511,600
Current Year Depreciation	(2,062,542)

Total 1,345,523

Governmental funds only report the disposal of capital assets and land bank assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal:

Economic Development Properties Deletions	(124,500)
Capital Assets	(69,005)

Total (193,505)

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

Delinquent Property Taxes	(4,543)
Income Taxes	533,594
Intergovernmental	(17,187)
Special Assessments	(37,449)

Total 474,415

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	1,758,754
OPEB	33,058

1,791,812

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities:

Pension	(2,790,768)
OPEB	(1,405,832)

(4,196,600)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

2,326,084

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued Interest	7,436
Amortization of Premium	81,438
Amortization of Deferred Charge on Refunding	(10,584)

Total 78,290

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	(87,195)
Vacation Benefits	(51,312)

Total (138,507)

Inception of a capital lease is an other financing source in the governmental funds, but increases liabilities in governmental activities.

(170,220)

Other financing sources in the governmental funds increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities.

OPWC Loan Issued	(40,860)
Bond Anticipation Notes Issued	(500,000)
Premium on BAN Notes Issued	(1,840)

Total (542,700)

*Change in Net Position of Governmental Activities* (\$43,439)

See accompanying notes to the basic financial statements

**City of South Euclid, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2018*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$3,102,315	\$3,299,590	\$3,315,677	\$16,087
Income Taxes	10,075,985	10,716,710	10,768,961	52,251
Special Assessments	65,887	70,076	70,418	342
Intergovernmental	1,684,666	1,776,305	1,784,245	7,940
Interest	35,998	38,287	38,474	187
Fees, Licenses and Permits	685,582	729,178	732,733	3,555
Fines and Forfeitures	715,554	761,055	764,766	3,711
Rentals	22,923	24,380	24,499	119
Charges for Services	295,643	314,443	315,976	1,533
Contributions and Donations	11,379	12,103	12,162	59
Other	88,285	115,918	120,112	4,194
<i>Total Revenues</i>	<u>16,784,217</u>	<u>17,858,045</u>	<u>17,948,023</u>	<u>89,978</u>
<b>Expenditures</b>				
Current:				
General Government:				
Legislative and Executive	3,112,361	3,252,413	2,859,966	392,447
Judicial System	724,024	724,024	616,801	107,223
Security of Persons and Property:				
Police	5,544,156	5,501,077	4,842,968	658,109
Fire	4,011,021	4,156,311	3,873,691	282,620
Public Health Services	169,395	169,395	154,166	15,229
Leisure Time Activities	369,177	365,427	273,506	91,921
Community Development	476,057	481,065	422,255	58,810
Building Department	1,004,857	1,067,167	1,038,922	28,245
Transportation	1,473,317	1,507,066	1,376,549	130,517
Basic Utility Services	1,463,117	1,466,867	1,395,207	71,660
<i>Total Expenditures</i>	<u>18,347,482</u>	<u>18,690,812</u>	<u>16,854,031</u>	<u>1,836,781</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,563,265)</u>	<u>(832,767)</u>	<u>1,093,992</u>	<u>1,926,759</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	36,557	38,881	37,130	(1,751)
Transfers Out	(1,715,000)	(2,116,003)	(2,116,003)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,678,443)</u>	<u>(2,077,122)</u>	<u>(2,078,873)</u>	<u>(1,751)</u>
<i>Net Change in Fund Balance</i>	<u>(3,241,708)</u>	<u>(2,909,889)</u>	<u>(984,881)</u>	<u>1,925,008</u>
<i>Fund Balance Beginning of Year</i>	4,640,903	4,640,903	4,640,903	0
Prior Year Encumbrances Appropriated	929,209	929,209	929,209	0
<i>Fund Balance End of Year</i>	<u>\$2,328,404</u>	<u>\$2,660,223</u>	<u>\$4,585,231</u>	<u>\$1,925,008</u>

See accompanying notes to the basic financial statements

**City of South Euclid, Ohio**  
*Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
Safety Forces Levy Fund  
For the Year Ended December 31, 2018*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,803,401	\$1,899,958	\$1,899,958	\$0
Intergovernmental	67,153	70,480	70,480	0
<i>Total Revenues</i>	1,870,554	1,970,438	1,970,438	0
<b>Expenditures</b>				
Current:				
Security of Persons and Property:				
Police Department:				
Personal Services	925,000	955,000	955,000	0
Contractual Services	12,000	17,000	10,224	6,776
Total Police Department	937,000	972,000	965,224	6,776
Fire Department:				
Personal Services	925,000	955,000	955,000	0
Contractual Services	12,000	17,000	10,224	6,776
Total Fire Department	937,000	972,000	965,224	6,776
<i>Total Expenditures</i>	1,874,000	1,944,000	1,930,448	13,552
<i>Net Change in Fund Balance</i>	(3,446)	26,438	39,990	13,552
<i>Fund Balance Beginning of Year</i>	10,299	10,299	10,299	0
<i>Fund Balance End of Year</i>	\$6,853	\$36,737	\$50,289	\$13,552

See accompanying notes to the basic financial statements

**City of South Euclid, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2018*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,134,403</u></u>
<b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$1,134,403</u></u>

See accompanying notes to the basic financial statements

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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**Note 1 – Description of the City and Reporting Entity**

The City of South Euclid (the “City”) is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a mayor-council form of government, was adopted November 3, 1953. Legislative authority is vested in a seven-member Council. Council members are elected for staggered four year terms. The Mayor is the chief executive and administrative officer who is elected for a four year term.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of South Euclid this includes the agencies and departments that provide the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection, municipal court and general administrative services. The City's departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a parks and recreation department, a planning and zoning department and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process. The clerk of courts is an appointed City official who has a fiduciary responsibility for the collection and distribution of the court fees and fines.

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

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

**Note 2 – Summary of Significant Accounting Policies**

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

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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***Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

***Fund Accounting***

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

***Governmental Funds***

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

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

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
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***Safety Forces Levy Fund*** - The safety forces levy fund accounts for and reports restricted property taxes that are to be used for police and fire services within the City.

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

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

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for construction deposits, donations, court accounts, employee payroll contributions, fire damage deposits, EDGE accounts and Partnership on Aging accounts.

#### ***Measurement Focus***

##### ***Government-wide Financial Statements***

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

##### ***Fund Financial Statements***

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

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

#### ***Basis of Accounting***

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

***Revenues - Exchange and Nonexchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding, pension and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 17 and 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, pension, OPEB and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes, special assessments and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 17 and 18)

***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.

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions/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 plan. 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 plans report investments at fair value.

***Cash and Cash Equivalents***

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

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

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

Following the Charter and Codified Ordinances of the City as well as Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest is distributed to the general fund and safety forces vehicle capital projects fund. Interest revenue credited to the general fund during 2018 amounted to \$88,217, which includes \$31,988 assigned from other City funds.

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

***Economic Development Properties***

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2018, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

***Inventory***

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

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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***Assets Held for Resale***

Assets held for resale represent land purchased by the City which will be sold for development purposes and homes purchased and repaired to be resold under the Community Development in-fill housing project. As of December 31, 2018, the City has nine lots on Greenvale which are being held for resale.

***Interfund Balances***

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

***Capital Assets***

The City’s only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of seven thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 - 40 years
Equipment	5 - 20 years
Vehicles	8 years
Streets	30 years
Bridges, Sewers and Culverts	60 years
Traffic Signals	50 years

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

***Compensated Absences***

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

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
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Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after seven years of accumulated service.

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

***Fund Balance***

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

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

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

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

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

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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**Assigned** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by Council. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State statute. State statute authorizes the finance director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2019's budget and for swimming pools and basic utility services.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

***Net Position***

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

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

***Internal Activity***

Transfers between governmental activities are eliminated on the government wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

***Bond/Note Premiums***

On the government-wide financial statements, bond/note premiums are deferred and amortized over the term of the bonds/notes using the straight line method. Bond/note premiums are presented as an increase of the face amount of the general obligation bonds payable and notes payable. On fund financial statements, bond/note premiums are reported in the year the bonds/notes are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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from being applied to the project fund. Ohio law does not allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

***Estimates***

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

***Budgetary Process***

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

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

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

**Note 3 - Budgetary Basis of Accounting**

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

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

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2018

5. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
6. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).

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

Net Change in Fund Balance		General	Safety Forces Levy
GAAP Basis	(\$216,250)	\$18,930	
Net Adjustment for Revenue Accruals	(144,243)	0	
Beginning Fair Value Adjustment for Investments	(5,680)	0	
Ending Fair Value Adjustment for Investments	14,145	0	
Beginning Unrecorded Cash	3,454	0	
Ending Unrecorded Cash	(15,807)	0	
Perspective Difference:			
Swimming Pools	20,878	0	
Net Adjustment for Expenditure Accruals	207,284	21,060	
Encumbrances	(848,662)	0	
Budget Basis	<u>(\$984,881)</u>	<u>\$39,990</u>	

**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:

Fund Balances	General	Safety Forces Levy	Flood Control	Other Governmental Funds	Total
<i><b>Nonspendable</b></i>					
Prepays	\$107,318	\$0	\$0	\$0	\$107,318
Inventory	81,218	0	0	122,937	204,155
<i>Total Nonspendable</i>	<u>\$188,536</u>	<u>\$0</u>	<u>\$0</u>	<u>\$122,937</u>	<u>\$311,473</u>

**City of South Euclid, Ohio**  
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Fund Balances	General	Safety Forces Levy	Flood Control	Other Governmental Funds	Total
<b><i>Restricted for</i></b>					
Sewer Rental	\$0	\$0	\$0	\$130,127	\$130,127
Home Improvement	0	0	0	21,934	21,934
Public Safety	0	0	0	251,652	251,652
Street Maintenance	0	0	0	494,147	494,147
Debt Service Payments	0	0	0	8,581	8,581
Street Lighting	0	0	0	1,490	1,490
Capital Improvements	0	0	906,627	1,202,085	2,108,712
<b><i>Total Restricted</i></b>	<b>0</b>	<b>0</b>	<b>906,627</b>	<b>2,110,016</b>	<b>3,016,643</b>
<b><i>Assigned to</i></b>					
<b><i>Purchases on Order:</i></b>					
Personal Services	62,578	0	0	0	62,578
Materials and Supplies	233,325	0	0	0	233,325
Contractual Services	393,296	0	0	0	393,296
Swimming Pools	39,900	0	0	0	39,900
Community Diversion Programs	21,674	0	0	0	21,674
Salaries and Benefits	315,870	0	0	0	315,870
2019 Operations	3,300,327	0	0	0	3,300,327
<b><i>Total Assigned</i></b>	<b>4,366,970</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,366,970</b>
<b><i>Unassigned (Deficit)</i></b>	<b>2,479,822</b>	<b>(104,345)</b>	<b>0</b>	<b>(716,512)</b>	<b>1,658,965</b>
<b><i>Total Fund Balances</i></b>	<b>\$7,035,328</b>	<b>(\$104,345)</b>	<b>\$906,627</b>	<b>\$1,516,441</b>	<b>\$9,354,051</b>

**Note 5 – Accountability**

Fund balances at December 31, 2018 included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Special Revenue Funds:</i>	
Safety Forces Levy	\$104,345
Police Pension	2,799
Fire Pension	6,335
<i>Capital Projects Fund:</i>	
Land Acquisition	707,378

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

**Note 6 - Deposits and Investments**

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

The City has chosen to follow State statutes and classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands upon the City treasury. Active 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.

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and, with certain limitations 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
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of settlement 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.

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

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

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

**Deposits**

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2018, \$1,567,665 of the City's total bank balance of \$4,766,630 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Two of the City's financial institutions participate in the Ohio Pooled Collateral System (OPCS) and were approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

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

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

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

**Investments**

Investments are reported at fair value. As of December 31, 2018, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>	<u>Standard &amp; Poor's Rating</u>	<u>Percent of Total Investments</u>
Fair Value - Level One Inputs				
Money Market Mutual Fund	\$328,024	Less than one year	AA+	5.72 %
Fair Value - Level Two Inputs				
Federal Home Loan Bank Bonds	1,163,152	Less than three years	AA+	20.27
Federal Home Loan				
Mortgage Corporation Notes	1,264,393	Less than five years	AA+	22.03
Negotiable Certificates	2,983,693	Less than three years	N/A	51.98
Total Fair Value - Level Two Inputs	<u>5,411,238</u>			
Total Portfolio	<u>\$5,739,262</u>			

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The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2018. The Money Market Mutual Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

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

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

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

## **Note 7 - Receivables**

Receivables at December 31, 2018, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for utility service).

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

At December 31, 2018 the total amount of delinquent special assessments was \$674,060. These delinquencies will be collected in the flood control, sewer rental and street lighting special revenue funds.

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

### ***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2018 for real and public utility property taxes represents collections of 2017 taxes.

2018 real property taxes were levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2017.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes which became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was \$18.85 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2018 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$313,379,140
Other Real Estate	56,696,750
Tangible Personal Property	
Public Utility	10,648,110
Total Assessed Values	\$380,724,000

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2018, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2018 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

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

***Payments in Lieu of Taxes***

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

**City of South Euclid, Ohio**  
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***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Homestead and Rollback	\$333,415
Gasoline and Excise Tax	303,794
Local Government	284,506
Permissive Motor Vehicle License Tax	64,361
State and Local Highway Tax	55,446
South Euclid Municipal Court	54,008
City of Richmond Heights	3,761
Notre Dame	2,800
State of Ohio	1,601
Total	<u><u>\$1,103,692</u></u>

**Note 8 - Risk Management**

***Property and Liability***

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

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

***Worker's Compensation***

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

**Note 9 - Shared Risk Pool**

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

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

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

In 2018, the City of South Euclid paid \$234,975 in premiums from the general fund, which represents 9.30 percent of total NORMA premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2018, was as follows:

<b>Governmental Activities</b>	Balance 12/31/2017	Additions	Deductions	Balance 12/31/2018
<b>Capital Assets not being Depreciated:</b>				
Land	\$517,278	\$0	\$0	\$517,278
Construction in Progress	883,620	1,321,248	(894,006)	1,310,862
Total Capital Assets not being Depreciated	<u>1,400,898</u>	<u>1,321,248</u>	<u>(894,006)</u>	<u>1,828,140</u>
<b>Capital Assets being Depreciated:</b>				
Buildings and Improvements	6,562,524	62,964	0	6,625,488
Equipment	2,641,766	34,955	0	2,676,721
Vehicles	3,984,278	1,439,749	(952,060)	4,471,967
Infrastructure:				
Streets	31,023,805	510,224	0	31,534,029
Bridges, Sewers and Culverts	31,322,596	421,331	0	31,743,927
Traffic Signals	109,276	0	0	109,276
Total Capital Assets being Depreciated	<u>75,644,245</u>	<u>2,469,223</u>	<u>(952,060)</u>	<u>77,161,408</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(5,438,379)	(93,258)	0	(5,531,637)
Equipment	(1,548,686)	(148,465)	0	(1,697,151)
Vehicles	(3,309,906)	(291,863)	883,055	(2,718,714)
Infrastructure:				
Streets	(14,915,532)	(986,484)	0	(15,902,016)
Bridges, Sewers and Culverts	(6,025,048)	(540,343)	0	(6,565,391)
Traffic Signals	(14,765)	(2,129)	0	(16,894)
Total Accumulated Depreciation	<u>(31,252,316)</u>	<u>(2,062,542) *</u>	<u>883,055</u>	<u>(32,431,803)</u>
Total Capital Assets being Depreciated, Net	<u>44,391,929</u>	<u>406,681</u>	<u>(69,005)</u>	<u>44,729,605</u>
Total Governmental Activities Capital Assets, Net	<u>\$45,792,827</u>	<u>\$1,727,929</u>	<u>(\$963,011)</u>	<u>\$46,557,745</u>

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\*Depreciation expense was charged to governmental activities as follows:

General Government:	
Legislative and Executive	\$1,228
Judicial System	3,859
Security of Persons and Property:	
Police	25,566
Fire	20,046
Leisure Time Activities	8,275
Building Department	4,434
Transportation	1,276,020
Basic Utility Services	666,828
Swimming Pools	56,286
Total Depreciation Expense	\$2,062,542

**Note 11 – Assets Held for Resale**

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

As of December 31, 2018 the City has nine lots on Greenvale remaining which are being held for resale.

**Note 12 - Note Debt**

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

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018
2018 GO Bond Anticipation Note	\$0	\$200,000	\$0	\$200,000
2018 GO Bond Anticipation Note Premium	0	736	552	184
2017 GO Bond Anticipation Note	900,000	0	900,000	0
2017 GO Bond Anticipation Note Premium	1,256	0	1,256	0
Total	\$901,256	\$200,736	\$901,808	\$200,184

In 2018, the City issued \$200,000 in general obligation bond anticipation notes at an interest rate of 2.13 percent. These notes mature on March 21, 2019. The notes were issued for real estate acquisition and urban redevelopment.

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

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

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**Note 13 - Long-Term Obligations**

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

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

A schedule of changes in bonds and other long-term obligations of the City during 2018 follows:

	Amount Outstanding 12/31/2017	Additions	Deletions	Amount Outstanding 12/31/2018	Amounts Due In One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
2012 Real Estate Acquisition and Urban Redevelopment Bonds					
Current Interest Serial Bonds	\$2,365,000	\$0	(\$310,000)	\$2,055,000	\$325,000
Term Bonds	10,885,000	0	0	10,885,000	0
Premium on 2012 Real Estate Acquisition and Urban Redevelopment Bonds	1,195,529	0	(48,304)	1,147,225	0
<b>Total 2012 Real Estate Acquisition and Urban Redevelopment Bonds</b>	<b>14,445,529</b>	<b>0</b>	<b>(358,304)</b>	<b>14,087,225</b>	<b>325,000</b>
2010 Various Purpose					
General Obligation Refunding Bonds	770,000	0	(770,000)	0	0
Premium on Various Purpose Bonds	30,778	0	(30,778)	0	0
<b>Total 2010 Various Purpose General Obligation Refunding Bonds</b>	<b>800,778</b>	<b>0</b>	<b>(800,778)</b>	<b>0</b>	<b>0</b>
<b>Total General Obligation Bonds</b>	<b>15,246,307</b>	<b>0</b>	<b>(1,159,082)</b>	<b>14,087,225</b>	<b>325,000</b>
<b>Special Obligation Bonds:</b>					
2014 Housing Development	\$1,560,000	\$0	(\$105,000)	\$1,455,000	\$110,000

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	Amount Outstanding 12/31/2017	Additions	Deletions	Amount Outstanding 12/31/2018	Amounts Due In One Year
<b>Governmental Activities Continued</b>					
<b>OPWC Loans:</b>					
Liberty Road Bridge Replacement	\$188,971	\$0	(\$37,795)	\$151,176	\$37,794
Whitehall Road Bridge Replacement	80,250	0	(9,441)	70,809	9,442
Bexley Infrastructure	436,599	0	(62,371)	374,228	62,372
Cedar Center	204,898	0	(13,219)	191,679	13,220
Nine Mile Creek Rehabilitation	204,548	0	(13,197)	191,351	13,196
Rainbow Creek	85,592	0	(5,522)	80,070	5,523
Green Road	546,439	0	(35,254)	511,185	35,254
Argone Road	622,645	0	(24,417)	598,228	24,418
South Green Traffic Signal	8,209	40,860	0	49,069	0
<i>Total OPWC Loans</i>	<u>2,378,151</u>	<u>40,860</u>	<u>(201,216)</u>	<u>2,217,795</u>	<u>201,219</u>
<b>OAQDA Loans:</b>					
OAQDA 2011 Series A	127,981	0	(50,949)	77,032	52,554
OAQDA 2011 Series B	388,920	0	0	388,920	0
<i>Total OAQDA Loans</i>	<u>516,901</u>	<u>0</u>	<u>(50,949)</u>	<u>465,952</u>	<u>52,554</u>
<b>General Obligation BAN's:</b>					
2017 General Obligation BAN	700,000	0	(700,000)	0	0
Premium	976	0	(976)	0	0
2018 General Obligation BAN	0	500,000	0	500,000	0
Premium	0	1,840	(1,380)	460	0
<i>Total General Obligation BAN's</i>	<u>700,976</u>	<u>501,840</u>	<u>(702,356)</u>	<u>500,460</u>	<u>0</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability					
OPERS	6,307,456	0	(2,153,570)	4,153,886	0
OP&F	17,616,856	0	(789,070)	16,827,786	0
Total Net Pension Liability	<u>23,924,312</u>	<u>0</u>	<u>(2,942,640)</u>	<u>20,981,672</u>	<u>0</u>
Net OPEB Liability					
OPERS	2,719,011	72,906	0	2,791,917	0
OP&F	13,202,490	2,332,277	0	15,534,767	0
Total Net OPEB Liability	<u>15,921,501</u>	<u>2,405,183</u>	<u>0</u>	<u>18,326,684</u>	<u>0</u>
OWDA Stormwater Improvement	1,087,677	0	(105,864)	981,813	109,333
Police and Fire Pension	239,225	0	(9,483)	229,742	9,890
Capital Lease	91,466	170,220	(73,572)	188,114	74,424
Compensated Absences	923,453	122,682	(35,487)	1,010,648	80,804
<i>Total Other Long-term Obligations</i>	<u>42,187,634</u>	<u>2,698,085</u>	<u>(3,167,046)</u>	<u>41,718,673</u>	<u>274,451</u>
<i>Total Governmental Activities</i>	<u>\$62,589,969</u>	<u>\$3,240,785</u>	<u>(\$5,385,649)</u>	<u>\$60,445,105</u>	<u>\$963,224</u>

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

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

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

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

In 2010, the City defeased previously issued various purpose bonds in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2018, all of the defeased bonds have been retired.

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

In 2018, the City rolled \$500,000 in general obligation bond anticipation notes for the purchase of land held for resale. These notes mature on March 21, 2019. All of the proceeds have been spent.

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

A line of credit has been established with the Ohio Public Works Commission in the amount of \$118,695 for South Green traffic signals. The balance of the loan at December 31, 2018 was \$49,069. Since the loan was not yet finalized, a repayment schedule is not included in the schedule of debt service payments. The loan will be paid from the flood control capital projects fund.

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

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

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

As of December 31, 2018, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$35,874,601 and the unvoted legal debt margin was \$15,383,401. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2018 are as follows:

	General Obligation Bonds		OWDA Loans		Police and Fire Pension		OPWC Loans
	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2019	\$325,000	\$596,568	\$109,333	\$31,027	\$9,890	\$9,660	\$201,219
2020	325,000	586,818	112,915	27,446	10,315	9,235	201,215
2021	340,000	579,743	116,614	23,746	10,708	8,844	201,215
2022	345,000	571,822	120,435	19,925	11,220	8,330	201,216
2023	355,000	563,288	124,381	15,979	11,702	7,848	163,422
2024-2028	2,015,000	2,569,050	398,135	22,947	66,498	31,254	544,018
2029-2033	2,585,000	1,998,875	0	0	82,058	15,693	424,450
2034-2038	3,325,000	1,263,625	0	0	27,351	1,102	122,090
2039-2043	3,325,000	342,875	0	0	0	0	109,881
<b>Total</b>	<b>\$12,940,000</b>	<b>\$9,072,664</b>	<b>\$981,813</b>	<b>\$141,070</b>	<b>\$229,742</b>	<b>\$91,966</b>	<b>\$2,168,726</b>

	OAQDA Loans		Special Obligation Bonds	
	Principal	Interest	Principal	Interest
2019	\$52,554	\$22,556	\$110,000	\$51,652
2020	54,209	20,501	115,000	47,748
2021	55,589	17,757	120,000	43,666
2022	56,867	14,689	125,000	39,405
2023	58,175	11,552	130,000	34,968
2024-2028	188,558	15,099	700,000	103,837
2029	0	0	155,000	5,502
<b>Total</b>	<b>\$465,952</b>	<b>\$102,154</b>	<b>\$1,455,000</b>	<b>\$326,778</b>

**Note 14 - Contingencies**

**Grants**

The City received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of

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management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2018.

***Litigation***

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

**Note 15 - Compensated Absences**

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

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

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

**Note 16 – Capital Lease**

In 2018, the City entered into a capital lease obligation for a 2019 International front plow spreader. In prior years, the City had entered into a capital lease obligation for copiers and a John Deere Tractor. The leases meet the criteria for a capital lease and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and the book values as of December 31, 2018 are as follows:

	<u>Amounts</u>
Vehicles	\$335,061
Equipment	<u>57,787</u>
Total Capitalized	392,848
Less: Accumulated Depreciation	<u>(116,014)</u>
Current Book Value	<u><u>\$276,834</u></u>

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2018.

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	Amounts
2019	\$79,855
2020	49,162
2021	36,461
2022	35,260
Total Minimum Lease Payments	200,738
Less: Amount representing interest	(12,624)
Present Value of Minimum Lease Payments	\$188,114

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

**Note 17 - Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

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

The net pension liability (asset) and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. 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 is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability (asset) represent 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 these estimates annually.

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, 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 liabilities within 30 years. If the pension 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

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enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net pension/OPEB asset* or a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB 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 18 for the required OPEB disclosures.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

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 800-222-7377.

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

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
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
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

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

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

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

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement 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 percent 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 purchase of a monthly defined benefit annuity from OPERS (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 (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2018 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee *	10.0 %
 <b>2018 Actual Contribution Rates</b>	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %

\* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

\*\* These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

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

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For 2018, The City's contractually required contribution was \$462,471 for the traditional plan, \$12,778 for the combined plan and \$9,459 for the member-directed plan. Of these amounts, \$55,873 is reported as an intergovernmental payable for the traditional plan, \$1,475 for the combined plan, and \$779 for the member-directed plan.

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

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

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

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

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

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

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	Police	Firefighters
<b>2018 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2018 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
 Total Employer	 19.50 %	 24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,283,505 for 2017. Of this amount, \$168,130 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2018, the specific liability of the City was \$229,742 payable in semi-annual payments through the year 2035.

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

The net pension liability (asset) for OPERS was measured as of December 31, 2017, and the total pension liability 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. 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. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Proportion of the Net Pension Liability/Asset:				
Current Measurement Date	0.026478%	0.021876%	0.2741820%	
Prior Measurement Date	0.027776%	0.026383%	0.2781360%	
 Change in Proportionate Share	 -0.001298%	 -0.004507%	 -0.0039540%	
 Proportionate Share of the:				
Net Pension Liability	\$4,153,886	\$0	\$16,827,786	\$20,981,672
Net Pension Asset	0	29,782	0	29,782
 Pension Expense	 795,435	 (21,000)	 2,016,333	 2,790,768

2018 pension expense for the member-directed defined contribution plan was \$9,459.

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At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
<b>Deferred Outflows of Resources</b>				
Differences between expected and actual experience	\$4,242	\$0	\$255,373	\$259,615
Changes of assumptions	496,417	2,602	733,275	1,232,294
Changes in proportion and differences between City contributions and proportionate share of contributions	0	2,187	196,348	198,535
City contributions subsequent to the measurement date	462,471	12,778	1,283,505	1,758,754
<b>Total Deferred Outflows of Resources</b>	<b>\$963,130</b>	<b>\$17,567</b>	<b>\$2,468,501</b>	<b>\$3,449,198</b>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	\$81,860	\$8,872	\$30,442	\$121,174
Net difference between projected and actual earnings on pension plan investments	891,784	4,699	582,112	1,478,595
Changes in proportion and differences between City contributions and proportionate share of contributions	148,048	0	190,279	338,327
<b>Total Deferred Inflows of Resources</b>	<b>\$1,121,692</b>	<b>\$13,571</b>	<b>\$802,833</b>	<b>\$1,938,096</b>

\$1,758,754 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or increase to the net pension asset in 2019. 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 Plan	OPERS Combined Plan	OP&F	Total
Year Ending December 31:				
2019	\$291,141	(\$1,231)	\$435,712	\$725,622
2020	(153,032)	(1,359)	282,670	128,279
2021	(392,695)	(2,412)	(320,259)	(715,366)
2022	(366,447)	(2,301)	(208,593)	(577,341)
2023	0	(651)	156,247	155,596
Thereafter	0	(828)	36,386	35,558
<b>Total</b>	<b>(\$621,033)</b>	<b>(\$8,782)</b>	<b>\$382,163</b>	<b>(\$247,652)</b>

**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

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employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent	7.5 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

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

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

During 2017, 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 for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

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The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
<b>Total</b>	<b>100.00 %</b>	<b>5.66 %</b>

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

**Sensitivity of the City’s Proportionate Share of the Net Pension Liability (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 7.5 percent, 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>City's proportionate share of the net pension liability (asset)</b>			
OPERS Traditional Plan	\$7,376,241	\$4,153,886	\$1,467,411
OPERS Combined Plan	(16,188)	(29,782)	(39,158)

**Changes between Measurement Date and Report Date**

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City’s net pension liability is not known.

**City of South Euclid, Ohio**  
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**Actuarial Assumptions – OP&F**

OP&F’s total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, 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. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

	January 1, 2017	January 1, 2016
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	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

For the January 1, 2017, 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

For the January 1, 2017, 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.

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

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For the January 1, 2016 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.

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return 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. 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, 2017, are summarized below:

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

Note: Assumptions are geometric.

\* levered 2x

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

**Discount Rate** For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**City of South Euclid, Ohio**  
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***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 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$23,327,726	\$16,827,786	\$11,526,493

**Note 18 – Postemployment Benefits**

See Note 17 for a description of the net OPEB liability

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. 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.

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Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$2,703 for 2018. Of this amount, \$311 is reported as an intergovernmental payable.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

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

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

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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 made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was \$30,355 for 2018. Of this amount, \$4,003 is reported as an intergovernmental payable.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. 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&amp;F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.025710%	0.2741820%	
Prior Measurement Date	<u>0.026920%</u>	<u>0.2781360%</u>	
Change in Proportionate Share	<u>-0.0012100%</u>	<u>-0.0039540%</u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$2,791,917	\$15,534,767	\$18,326,684
OPEB Expense	\$196,099	\$1,209,733	\$1,405,832

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At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$2,175	\$0	\$2,175
Changes of assumptions	203,281	1,515,863	1,719,144
City contributions subsequent to the measurement date	<u>2,703</u>	<u>30,355</u>	<u>33,058</u>
<b>Total Deferred Outflows of Resources</b>	<u><b>\$208,159</b></u>	<u><b>\$1,546,218</b></u>	<u><b>\$1,754,377</b></u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$78,351	\$78,351
Net difference between projected and actual earnings on OPEB plan investments	207,979	102,257	310,236
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>82,683</u>	<u>182,747</u>	<u>265,430</u>
<b>Total Deferred Inflows of Resources</b>	<u><b>\$290,662</b></u>	<u><b>\$363,355</b></u>	<u><b>\$654,017</b></u>

\$33,058 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 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
2019	\$6,703	\$157,881	\$164,584
2020	6,703	157,881	164,584
2021	(46,618)	157,881	111,263
2022	(51,994)	157,881	105,887
2023	0	183,445	183,445
Thereafter	<u>0</u>	<u>337,539</u>	<u>337,539</u>
<b>Total</b>	<u><b>(\$85,206)</b></u>	<u><b>\$1,152,508</b></u>	<u><b>\$1,067,302</b></u>

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan 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. The total OPEB liability was determined by an actuarial valuation as of December 31,

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2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

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

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.

During 2017, 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 is 15.2 percent for 2017.

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 for 2017 and the long-term expected real rates of return:

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Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
<b>Total</b>	<b>100.00 %</b>	<b>4.98 %</b>

**Discount Rate** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. 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 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made 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 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.

**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 3.85 percent, 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 (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$3,709,182	\$2,791,917	\$2,049,858

**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. 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 1.0 percent lower or 1.0 percent higher than the current rate.

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 2018 is 7.50 percent. 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

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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 3.25 percent in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$2,671,269	\$2,791,917	\$2,916,542

***Changes between Measurement Date and Report Date***

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net OPEB liability is not known.

***Actuarial Assumptions – OP&F***

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, 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 as follows.

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Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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.

<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 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

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.24 percent. 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 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available

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to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

***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 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$19,418,647	\$15,534,767	\$12,546,266

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
Year					
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$12,067,687	\$15,534,767	\$20,207,220

***Changes between Measurement Date and Report Date***

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. 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. The impact to the City's NOL is not known.

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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**Note 19 - Jointly Governed Organizations**

***Community Partnership on Aging***

The Community Partnership on Aging (Partnership) is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. The partnership was formed between the Cities of South Euclid, Lyndhurst, Mayfield Heights and Highland Heights, for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and federal grants. The Partnership is controlled by the Council composed of the Mayors of the Cities of South Euclid, Lyndhurst, Mayfield Heights and Highland Heights, with the advice of a nine member commission. Continued existence of the Partnership is dependent on the City's continued participation; however the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. In 2018, the City contributed \$226,574, paid from the general fund, which represented 23.62 percent of Partnership revenues. To obtain a copy of the Partnership's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio, 44121.

***Northeast Ohio Public Energy Council***

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each community then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not make any contributions to NOPEC during 2018. Financial information can be obtained by contacting James Honsberger, Chief Financial Officer, at 31360 Solon Road, Suite 33, Solon, Ohio 44139 or at their website at [www.nopecinfo.org](http://www.nopecinfo.org).

***First Suburbs Consortium of Northeast Ohio Council of Governments***

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

The Council is governed by an Assembly made up of one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair and other members elected in annual elections. The Board oversees and manages the council including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating government is limited to

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

its representation in the Assembly and on the Board. During 2018, the City of South Euclid contributed \$3,000 for membership to the Council. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 165 Center Road, Bedford, Ohio 44146.

***Suburban Water Regional Council of Governments***

The City is a member of the Suburban Water Regional Council of Governments (SWRCOG). The organization is a regional council of governments formed under Ohio Revised Code Chapter 167. SWRCOG was formed to represent municipal corporation members in communications, understandings, uniform approaches and exchange of information between the council and the City of Cleveland with respect to water service, system and local operations, rates, maintenance and capital improvements. There are no dues or fees assessed against the members of the council. SWRCOG consists of 70 communities.

SWRCOG’s Board is comprised of 18 trustees elected from nine regional groups. The Board oversees and manages the operation of SWRCOG. The degree of control exercised by each community is limited to its representation in SWRCOG and on the Board. The City did not make any payments to SWRCOG during 2018. Financial information can be obtained by contacting the Office of the Executive Secretary of the Cuyahoga County Mayors and City Managers Association, 10107 Brecksville Road, Brecksville, Ohio 44141.

***Heights-Hillcrest Communications Center***

On June 28, 2016, the City entered into an Agreement with three other political subdivisions, the Cities of Cleveland Heights, University Heights and Shaker Heights, to form a Council of Governments (COG), pursuant to the authority granted by Chapter 167 of the Ohio Revised Code and Article XVIII, Section 3 of the Ohio Constitution. The name of the Regional Council of Governments is the Heights-Hillcrest Communications Center (“HHCC”). The purpose of HHCC is to provide a joint Police, Fire and Emergency Medical Services (“EMS”) communications system for the dispatch of Police, Fire and EMS services in and for the communities of all of the Members to this Agreement, which is operated and maintained by HHCC. On September 1, 2017, the HHCC GOG Agreement was amended to add the City of Richmond Heights as a member. The HHCC Dispatch Center is paid for by all five cities, based on formulae set forth in the Agreement. During 2018, the City of South Euclid contributed \$561,157. HHCC first began partial operation on November 1, 2017, with further increase in operation on December 13, 2017, and full operation for all five cities beginning on or about March 31, 2018.

**Note 20 - Interfund Transactions**

***Interfund Transfers***

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfers To	Transfers From General
Other Governmental Funds:	
General Obligation Bond Retirement	\$66,000
Land Acquisition	933,788
Street Maintenance	75,000
Sewer Rental	41,000
General Capital Improvements	496,493
Road Improvement	178,722
<b>Total</b>	<b>\$1,791,003</b>

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

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

***Interfund Balances***

Interfund balances at December 31, 2018, consist of an interfund payable in the amount of \$700,000 in the land acquisition fund for the payment of debt to the general fund. It is expected to be paid within one year.

**Note 21 – Significant Commitments**

***Encumbrances***

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

General Fund	\$848,662
Flood Control	79,142
Other Governmental Funds	844,598
<i>Total</i>	<i>\$1,772,402</i>

***Contracts***

As of December 31, 2018, the City had the following contractual construction commitments outstanding:

Vendor Name	Contract Amount	Amount Paid To Date	Remaining Contract
DiGioia-Suburban Excavating LLC	\$1,197,000	\$1,149,120	\$47,880
Perram Electric Inc.	190,045	0	190,045
Finley Fire Equipment	148,300	0	148,300
<i>Total</i>	<i>\$1,535,345</i>	<i>\$1,149,120</i>	<i>\$386,225</i>

Remaining commitment amounts were encumbered at year end.

**Note 22 – Change in Accounting Principle**

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For 2018, the City also implemented the Governmental Accounting Standards Board’s (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the City’s 2018 financial statements; however, there was no effect on beginning net position/fund balance.

**City of South Euclid, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2018*

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City’s fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the City’s 2018 financial statements; however, there was no effect on beginning net position.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	Governmental Activities
Net Position December 31, 2017	\$25,363,230
Adjustments:	
Net OPEB Liability	(15,921,501)
Deferred Outflow - Payments Subsequent to Measurement Date	67,951
Restated Net Position December 31, 2017	\$9,509,680

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 23 – Subsequent Events**

On March 20, 2019, the City issued general obligation bond anticipation notes in the amount of \$500,000 at a rate of 3.00 percent with a maturity date of March 19, 2020.

On December 19, 2019, the City issued \$12,710,000 of general obligation taxable refunding bonds. These bonds will advance refund the City’s outstanding Real Estate Acquisition and Urban Redevelopment Taxable General Obligation Bonds, Series 2012.

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## Required Supplementary Information

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

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.026478%	0.027776%	0.027986%	0.028449%	0.028449%
City's Proportionate Share of the Net Pension Liability	\$4,153,886	\$6,307,456	\$4,847,527	\$3,431,267	\$3,353,766
City's Covered Payroll	\$3,499,038	\$3,600,550	\$3,473,236	\$3,487,850	\$3,459,745
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.72%	175.18%	139.57%	98.38%	96.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

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

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

See accompanying notes to the required supplementary information.

**City of South Euclid, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Asset*  
*Ohio Public Employees Retirement System - Combined Plan*  
*2018 (1)*

	<u>2018</u>
City's Proportion of the Net Pension Asset	0.021876%
City's Proportionate Share of the Net Pension Asset	\$29,782
City's Covered Payroll	\$89,592
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	-33.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	137.28%

(1) Amounts for the combined plan are not presented prior to 2018 as the City's participation in this plan was considered immaterial in previous years.

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

See accompanying notes to the required supplementary information.

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

	2018	2017
City's Proportion of the Net OPEB Liability	0.025710%	0.026920%
City's Proportionate Share of the Net OPEB Liability	\$2,791,917	\$2,719,011
City's Covered Payroll	\$3,641,155	\$3,600,550
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.68%	75.52%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.2741820%	0.2781360%	0.2730100%	0.2726124%	0.2726124%
City's Proportionate Share of the Net Pension Liability	\$16,827,786	\$17,616,856	\$17,562,924	\$14,122,459	\$13,277,079
City's Covered Payroll	\$5,992,791	\$5,871,187	\$5,562,718	\$5,435,025	\$5,514,323
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	280.80%	300.06%	315.73%	259.84%	240.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

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

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

See accompanying notes to the required supplementary information.

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

	2018	2017
City's Proportion of the Net OPEB Liability	0.2741820%	0.2781360%
City's Proportionate Share of the Net OPEB Liability	\$15,534,767	\$13,202,490
City's Covered Payroll	\$5,992,791	\$5,871,187
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	259.22%	224.87%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year

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

See accompanying notes to the required supplementary information.

**City of South Euclid, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Contributions*  
*Ohio Public Employees Retirement System*  
*Last Six Years (1)*

	2018	2017	2016
<b>Net Pension Liability - Traditional Plan</b>			
Contractually Required Contribution	\$462,471	\$454,875	\$432,066
Contributions in Relation to the Contractually Required Contribution	<u>(462,471)</u>	<u>(454,875)</u>	<u>(432,066)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$3,303,364	\$3,499,038	\$3,600,550
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net Pension Liability - Combined Plan</b>			
Contractually Required Contribution	\$12,778	\$11,647	\$11,061
Contributions in Relation to the Contractually Required Contribution	<u>(12,778)</u>	<u>(11,647)</u>	<u>(11,061)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$91,271	\$89,592	\$92,175
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net OPEB Liability - OPEB Plan (3)</b>			
Contractually Required Contribution	\$2,703	\$37,987	\$72,011
Contributions in Relation to the Contractually Required Contribution	<u>(2,703)</u>	<u>(37,987)</u>	<u>(72,011)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (2)	\$3,462,210	\$3,641,155	\$3,600,550
OPEB Contributions as a Percentage of Covered Payroll	<u>0.08%</u>	<u>1.04%</u>	<u>2.00%</u>

(1) Information prior to 2013 is not available.

(2) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

(3) Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

2015	2014	2013
\$416,788	\$418,542	\$449,767
<u>(416,788)</u>	<u>(418,542)</u>	<u>(449,767)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,473,236	\$3,487,850	\$3,459,745
<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>
\$7,829	\$6,389	\$6,692
<u>(7,829)</u>	<u>(6,389)</u>	<u>(6,692)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$65,242	\$53,242	\$51,477
<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$1,283,505	\$1,265,037	\$1,239,217	\$1,171,179
Contributions in Relation to the Contractually Required Contribution	<u>(1,283,505)</u>	<u>(1,265,037)</u>	<u>(1,239,217)</u>	<u>(1,171,179)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (1)	\$6,070,974	\$5,992,791	\$5,871,187	\$5,562,718
Pension Contributions as a Percentage of Covered Payroll	<u>21.14%</u>	<u>21.11%</u>	<u>21.11%</u>	<u>21.05%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$30,355	\$29,964	\$29,355	\$27,814
Contributions in Relation to the Contractually Required Contribution	<u>(30,355)</u>	<u>(29,964)</u>	<u>(29,355)</u>	<u>(27,814)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>
Total Contributions as a Percentage of Covered Payroll	<u>21.64%</u>	<u>21.61%</u>	<u>21.61%</u>	<u>21.55%</u>

(1) The City's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information.

2014	2013	2012	2011	2010	2009
\$1,140,865	\$989,937	\$828,048	\$790,312	\$818,864	\$972,389
<u>(1,140,865)</u>	<u>(989,937)</u>	<u>(828,048)</u>	<u>(790,312)</u>	<u>(818,864)</u>	<u>(972,389)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$5,435,025	\$5,514,323	\$5,598,502	\$5,341,324	\$5,487,617	\$6,516,729
<u>20.99%</u>	<u>17.95%</u>	<u>14.79%</u>	<u>14.80%</u>	<u>14.92%</u>	<u>14.92%</u>
\$27,175	\$199,434	\$377,898	\$360,540	\$370,416	\$439,879
<u>(27,175)</u>	<u>(199,434)</u>	<u>(377,898)</u>	<u>(360,540)</u>	<u>(370,416)</u>	<u>(439,879)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.50%</u>	<u>3.62%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>
<u>21.49%</u>	<u>21.57%</u>	<u>21.54%</u>	<u>21.55%</u>	<u>21.67%</u>	<u>21.67%</u>

**City of South Euclid, Ohio**  
*Notes to the Required Supplementary Information*  
*For the year ended December 31, 2018*

**Changes in Assumptions – OPERS Pension**

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

	2017	2016 and prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Amounts reported 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. 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.

**City of South Euclid, Ohio**  
*Notes to the Required Supplementary Information*  
*For the year ended December 31, 2018*

**Changes in Assumptions – OP&F Pension**

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:

	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	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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

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.

Age	Police	Fire
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.

**City of South Euclid, Ohio**  
*Notes to the Required Supplementary Information*  
*For the year ended December 31, 2018*

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**Changes in Assumptions – OPERS OPEB**

For 2018, the single discount rate changed from 4.23 percent to 3.85 percent.

**Changes in Assumptions – OP&F OPEB**

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

# OHIO AUDITOR OF STATE KEITH FABER



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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Euclid, Cuyahoga County, (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 9, 2020, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

### ***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2018-001 to be a significant deficiency.

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

March 9, 2020

CITY OF SOUTH EUCLID  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2018-001

**Court Bank Reconciliations**

SIGNIFICANT DEFICIENCY

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Clerk of Courts is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis for the City's Municipal Court. Monthly bank to book reconciliations were not prepared or reviewed each month of 2018 for the Court's 10 bank accounts. Failure to reconcile monthly increases the possibility that the Court will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The Clerk of Courts should record all transactions and prepare monthly bank to book cash reconciliations for the Court, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Judge should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

**Official's Response:** We did not receive a response from Officials to this finding.

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# OHIO AUDITOR OF STATE KEITH FABER



**CITY OF SOUTH EUCLID**

**CUYAHOGA COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 7, 2020**