



Dave Yost • Auditor of State



**CITY OF BEDFORD HEIGHTS  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford Heights, Cuyahoga County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Fire Levy, and Issue 24 Levy Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

**Dave Yost**  
Auditor of State

September 6, 2012

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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The discussion and analysis of the City of Bedford Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- ◆ The assets of, the City of Bedford Heights exceeded its liabilities at the close of the most recent fiscal year by \$27,331,259. Of this amount, \$5,065,067 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$491,040, which represents an increase of approximately 1.24 percent from 2010. The two largest increases were cash and cash equivalents of \$655,368 and property taxes receivable of \$211,746. These changes were offset by a decrease in capital assets of \$474,985.
- ◆ Total liabilities decreased by \$555,926, which represents a decrease of approximately 4.15 percent over 2010. The main factors contributing to this change were decreases in accounts payable of \$66,372 and long term liabilities of \$432,720.
- ◆ In total, net assets in governmental activities increased by \$947,707 during 2011. This represents a 5.32 percent increase from 2010.

**Using this Annual Financial Report**

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

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

*Statement of Net Assets and the Statement of Activities*

The Statement of Net Assets presents information on all the City of Bedford Heights' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Bedford Heights is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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

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

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

*Fund Financial Statements*

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

*Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Bedford Heights maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund, fire levy special revenue fund, and the capital improvements capital projects fund, all of which are considered to be major funds.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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*Proprietary Funds*

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

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

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

*Notes to the Financial Statements*

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 32 of this report.

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

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

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

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

Table 1 provides a summary of the City's net assets for 2011 as compared to 2010.

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and Other Assets	\$ 12,840,905	\$ 11,784,481	\$ 2,233,756	\$ 2,324,155	\$ 15,074,661	\$ 14,108,636
Capital Assets, Net	<u>17,548,149</u>	<u>18,041,508</u>	<u>7,540,718</u>	<u>7,522,344</u>	<u>25,088,867</u>	<u>25,563,852</u>
Total Assets	<u>30,389,054</u>	<u>29,825,989</u>	<u>9,774,474</u>	<u>9,846,499</u>	<u>40,163,528</u>	<u>39,672,488</u>
<b>Liabilities</b>						
Current Liabilities and Other Liabilities	5,673,088	5,706,839	176,865	266,320	5,849,953	5,973,159
Long-term Liabilities						
Due Within One Year	1,883,668	1,791,698	205,614	205,968	2,089,282	1,997,666
Due In More Than One Year	<u>4,083,047</u>	<u>4,525,908</u>	<u>809,987</u>	<u>891,462</u>	<u>4,893,034</u>	<u>5,417,370</u>
Total Liabilities	<u>11,639,803</u>	<u>12,024,445</u>	<u>1,192,466</u>	<u>1,363,750</u>	<u>12,832,269</u>	<u>13,388,195</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	14,252,400	13,953,257	6,807,618	6,696,894	21,060,018	20,650,151
Restricted for:						
Debt Service	22,009	37,919	-	-	22,009	37,919
Capital Projects	632,808	392,780	-	-	632,808	392,780
Streets	284,612	221,486	-	-	284,612	221,486
Public Safety	227,323	130,803	-	-	227,323	130,803
Other purposes	39,422	15,000	-	-	39,422	15,000
Unrestricted	<u>3,290,677</u>	<u>3,050,299</u>	<u>1,774,390</u>	<u>1,785,855</u>	<u>5,065,067</u>	<u>4,836,154</u>
Total Net Assets	\$ <u>18,749,251</u>	\$ <u>17,801,544</u>	\$ <u>8,582,008</u>	\$ <u>8,482,749</u>	\$ <u>27,331,259</u>	\$ <u>26,284,293</u>

Total assets increased \$491,040. Cash and cash equivalents increased by \$655,368 and was offset by a decrease in capital assets of \$474,985. The increase in cash and cash equivalents is mainly due to the public safety levy revenues helping offset the costs of police and fire. The decrease in capital assets is due to depreciation expense exceeding capital asset additions.

The total net assets of the City increased \$1,046,966. The following factors were responsible for this increase:

- An increase in cash and cash equivalents of \$655,368
- An increase in property taxes receivable of \$211,746
- A decrease in capital assets of \$474,985
- A decrease in unearned revenue of \$42,941
- A decrease in long-term liabilities of \$432,720

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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

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

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

The net assets of the business-type activities increased approximately 1.17 percent in 2011. The City generally can only use these net assets to finance the continuing operations of the sewer system. The increase was mainly due to contributed capital.

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

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

Table 2  
 Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Program Revenues</b>						
Charges for Services	\$ 4,318,774	\$ 4,133,141	\$ 2,738,368	\$ 2,790,193	\$ 7,057,142	\$ 6,923,334
Operating Grants	148,839	54,932	-	-	148,839	54,932
Capital Grants	<u>944,184</u>	<u>203,979</u>	<u>-</u>	<u>-</u>	<u>944,184</u>	<u>203,979</u>
Total Program Revenues	<u>5,411,797</u>	<u>4,392,052</u>	<u>2,738,368</u>	<u>2,790,193</u>	<u>8,150,165</u>	<u>7,182,245</u>
<b>General Revenues</b>						
Property Taxes	5,123,192	3,266,574	-	-	5,123,192	3,266,574
Income Taxes	7,861,087	7,353,761	-	-	7,861,087	7,353,761
Grants and Entitlements	2,192,864	2,131,659	-	-	2,192,864	2,131,659
Investment Earnings	1,006	2,861	89	259	1,095	3,120
Miscellaneous	<u>19,421</u>	<u>65,428</u>	<u>16,537</u>	<u>12,529</u>	<u>35,958</u>	<u>77,957</u>
Total Revenues	<u>20,609,367</u>	<u>17,212,335</u>	<u>2,754,994</u>	<u>2,802,981</u>	<u>23,364,361</u>	<u>20,015,316</u>
<b>Program Expenses</b>						
General Government	3,731,659	3,636,040	-	-	3,731,659	3,636,040
Security of						
Persons and Property	10,674,485	10,575,672	-	-	10,674,485	10,575,672
Public Health and Welfare	384,536	359,539	-	-	384,536	359,539
Leisure Time Activities	1,593,836	1,442,077	-	-	1,593,836	1,442,077
Community Development	433,382	364,564	-	-	433,382	364,564
Basic Utility Services	677,440	673,000	-	-	677,440	673,000
Transportation	1,651,457	1,817,751	-	-	1,651,457	1,817,751
Interest and Fiscal Charges	151,458	181,736	-	-	151,458	181,736
Sewer	<u>-</u>	<u>-</u>	<u>3,019,142</u>	<u>2,753,292</u>	<u>3,019,142</u>	<u>2,753,292</u>
Total Program Expenses	<u>19,298,253</u>	<u>19,050,379</u>	<u>3,019,142</u>	<u>2,753,292</u>	<u>22,317,395</u>	<u>21,803,671</u>
Increase (Decrease)						
in Net Assets before Transfers	1,311,114	(1,838,044)	(264,148)	49,689	1,046,966	(1,788,355)
Transfers	<u>(363,407)</u>	<u>(121,000)</u>	<u>363,407</u>	<u>121,000</u>	<u>-</u>	<u>-</u>
Change in Net Assets	947,707	(1,959,044)	99,259	170,689	1,046,966	(1,788,355)
Net Assets, Beginning of Year	<u>17,801,544</u>	<u>19,760,588</u>	<u>8,482,749</u>	<u>8,312,060</u>	<u>26,284,293</u>	<u>28,072,648</u>
Net Assets, End of Year	\$ <u>18,749,251</u>	\$ <u>17,801,544</u>	\$ <u>8,582,008</u>	\$ <u>8,482,749</u>	\$ <u>27,331,259</u>	\$ <u>26,284,293</u>

*Governmental Activities*

Several revenue sources fund our governmental activities with the City's property and income tax being the largest contributors. The City's income tax revenue source is the largest contributor with a rate of two percent on gross income which has not changed since 1982. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax for 100 percent, the credit limit being two percent. During 2011, the revenues generated from this tax amounted to \$7,861,087. The City continues to enforce a delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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Security of Persons and Property and General Government are the major activities of the City generating 74.6 percent of the governmental expenses. The fire department is comprised of 26 members. There is one fire chief, one assistant fire chief, two captains, three lieutenants, and 19 firefighters. Most members of the department are certified paramedics and the department's roster will never have less than 18. This allows for the response of two ambulances that can provide advance lifesaving skills. Three members of the department are on the regional hazardous material response team and one is a HCO (Hazardous Command Officer). The staffing of the department is done in three shifts that rotate 24 hour tours. During this time they conduct daily training that consists of building walkthroughs, attending continuing education classes, performing joint exercises with neighboring departments and watching training videos. After large or difficult emergencies the shifts do a post incident critique to improve services. Additionally, the department sends out random surveys (10%) to those who have received fire department services and, based on the responses, the department has maintained an approval rating in the high 90 percentile. In fiscal year 2011, the department responded to 1,954 calls with 78 percent relating to emergency medical services.

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

The department aggressively pursues available funding through state and federal grants. In 2011, the department was awarded \$28,000 through a Northeast Ohio Public Energy Council Grant for energy upgrades. These upgrades included a new washer, a new heating system in the apparatus bays, new weather-proofing windows, and a new weather-proof entrance door. In 2010, the department was awarded \$96,000 through a Federal Emergency Agency Grant for new equipment. This grant was used to purchase self-contained breathing apparatus equipment, new turnout gear, new portable radios, and a new base station. During 2011, the amount the department spent on overtime expenses was \$153,963 as compared to \$98,554 during 2010. The total cost of operating the Fire and EMS department during 2011 was \$2,789,283, which is in the Fire Levy Fund. The City annually transfers into the Fire Levy Fund the difference between the revenue generated from the 3 mill fire levy and the operating expenses incurred. In 2011, the transfer from the general fund was \$2,000,000.

The City spent approximately \$645,000 on its annual road program entailing major and minor resurfacing of the various streets in Bedford Heights. The annual road program is funded from the 2-mill Street Construction Levy.

*Business-Type Activities*

The Business-Type activities of the City, which include the City's sewer operations, increased the City's net assets by \$99,259.

Net program expenses exceeded program revenue in the amount of \$280,774 for the sewer operations for 2011. This is mainly due to the cost of maintain the sewer system and is shown as depreciation expense.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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## **The City's Funds**

### *Governmental Funds*

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$24,842,927 and expenditures and other financing uses of \$23,988,085. The net change in fund balance for the year was most significant in the general fund showing an increase in fund balance of \$329,907 which resulted in a year-end fund balance of \$3,775,808. The increase in fund balance was mainly due to the creation of the Issue 24 Levy fund to assist in funding the costs of police and fire. The securities of persons and properties expenses decreased over \$3.4 million in 2011.

The Capital Improvements Fund also had an increase in fund balance. The Capital Improvements Fund reflected an increase in fund balance of \$240,028, which resulted in a fund balance of \$632,808. The increase can be attributed to an increase in grant revenue in 2011 as well as an increase in licenses and permits compared to 2010.

The Fire Levy Fund and the total non-major governmental funds increased \$71,597 and \$268,356, respectively, while the Issue 24 Safety Levy Fund decreased \$55,046. The main source for the increase in the Fire Levy Fund was the decrease in securities of persons and property expenses during 2011. The increase in fund balance in the non-major governmental funds was caused by an increase in charges for services revenue of \$352,235 related to EMS billings.

Overall the revenue base continued to meet City obligations. To combat the uncertain economic times, the City has taken cost-cutting measures to ensure its viability for many years to come. Revenue forecasting will become more difficult as estimates are more imprecise now than they have been in the recent past. The City's expectation is that it will lose property taxes due to the decrease in home values and income taxes due to the decrease in workforce.

### *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 a regularly held council meeting, which is open to the public; the budget is adopted by City Council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the general fund, final budget-basis revenue and other financing sources of \$13,603,931 was lower than the original budget estimates of \$15,404,759. The original appropriations for the general fund were \$13,818,516, including other financing uses. The final appropriations, including other financing uses, were \$13,949,783. The City historically budgets to expend nearly 100 percent of their available resources, when actually 102.5 percent of available resources were expended in 2011. The City's actual expenditures ended \$588,464 below the final budgeted amount.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

The City's ending unobligated budgetary fund balance was \$759,320 higher than the final budgeted amount mostly due to higher than anticipated income tax revenues and lower security of persons and property and leisure time activities expenditures.

*Business-Type Funds*

The City's major Enterprise fund consists of the Sewage Treatment Fund. The basic financial statements for the major fund are included in this report.

Proprietary Funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Sewage Treatment Fund. The basic proprietary fund financial statements can be found on page 28 through 30 of this report.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2011, the City of Bedford Heights had \$25,088,867 invested in land, buildings, equipment, vehicles and infrastructure.

Table 3 shows fiscal 2011 balances of Capital Assets as compared to 2010:

Table 3  
 Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,786,987	\$ 1,786,987	\$ 99,200	\$ 99,200	\$ 1,886,187	\$ 1,886,187
Buildings and improvements	18,728,031	18,715,109	4,026,475	3,956,788	22,754,506	22,671,897
Furniture, fixtures and equipment	2,742,359	2,624,806	7,534,901	7,527,301	10,277,260	10,152,107
Vehicles	3,292,157	3,292,157	387,181	387,181	3,679,338	3,679,338
Infrastructure	14,775,878	14,193,300	6,816,416	6,453,009	21,592,294	20,646,309
Construction in progress	276,984	276,984	-	22,781	276,984	299,765
Less: accumulated depreciation	<u>(24,054,247)</u>	<u>(22,847,835)</u>	<u>(11,323,455)</u>	<u>(10,923,916)</u>	<u>(35,377,702)</u>	<u>(33,771,751)</u>
Total Capital Assets	\$ <u>17,548,149</u>	\$ <u>18,041,508</u>	\$ <u>7,540,718</u>	\$ <u>7,522,344</u>	\$ <u>25,088,867</u>	<u>25,563,852</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame (5 to 6 years). The City's practice is to replace three-to-four police vehicles each year to replenish the safety fleet. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

With regards to the infrastructure, the City's engineering, public works and water reclamation departments maintain a comprehensive listing of all the streets and sewer lines in the City. As part of the City's annual road maintenance program, the engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or cracksealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the street construction levy fund and capital improvements fund of the City. Capital assets for business-type activities increased \$18,374 due to the large capital contribution from the governmental activities related to sewer lines put in during road construction projects. These lines were paid with capital improvements funds.

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

*Debt*

At December 31, 2011, the City of Bedford Heights had \$6,982,316 in outstanding debt, compensated absences, and claims payable, of which \$3,470,000 was in general obligation bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4  
 Outstanding Debt at Year End

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 2,736,900	\$ 3,409,550	\$ 733,100	\$ 825,450	\$ 3,470,000	\$ 4,235,000
Capital leases payable	334,996	436,193	-	-	334,996	436,193
OPWC loans payable	223,853	242,508	-	-	223,853	242,508
Compensated absences	1,793,762	1,568,714	282,501	271,980	2,076,263	1,840,694
Claims payable	877,204	660,641	-	-	877,204	660,641
<i>Total</i>	<u>\$ 5,966,715</u>	<u>\$ 6,317,606</u>	<u>\$ 1,015,601</u>	<u>\$ 1,097,430</u>	<u>\$ 6,982,316</u>	<u>\$ 7,415,036</u>

At December 31, 2011, the City's overall legal debt margin was \$22,093,922. At year-end, the outstanding general obligation debt was \$3,470,000. Other obligations include capital leases, accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Notes 10 and 11 of the basic financial statements.

**City of Bedford Heights**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

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**Current Related Financial Activities**

In November 2010, the citizens of Bedford Heights approved a Charter Amendment to establish a levy of 8.9 mills to be used to pay the costs and expenses of operating the City's police, fire and emergency medical services, commencing in 2010 and first collections beginning in 2011. The levy of 8.9 mills, known as Issue 24 on the November 2, 2010 ballot, was passed by 69.9% of the voters. First year collections in 2011 were \$2,134,270. In addition, the City of Bedford Heights' systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Bedford Heights with full disclosure of the financial position of the City.

**Contacting the City of Bedford Heights' Finance Department**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact the finance department, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, telephone (440) 786-3200.

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# City of Bedford Heights, Ohio

## Statement of Net Assets

**December 31, 2011**

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
<b>Assets:</b>			
Cash and cash equivalents	\$ 4,056,064	\$ 533,072	\$ 4,589,136
Accounts receivable	678,690	1,590,483	2,269,173
Intergovernmental receivable	1,141,227	-	1,141,227
Supplies and materials inventory	86,751	62,320	149,071
Prepaid assets	44,250	47,881	92,131
Property taxes receivable	5,265,662	-	5,265,662
Income taxes receivable	1,568,261	-	1,568,261
Non-depreciable capital assets	2,063,971	99,200	2,163,171
Depreciable assets, net	15,484,178	7,441,518	22,925,696
<b>Total assets</b>	<b>30,389,054</b>	<b>9,774,474</b>	<b>40,163,528</b>
<b>Liabilities:</b>			
Accounts payable	352,942	107,360	460,302
Accrued wages and benefits	611,063	47,189	658,252
Intergovernmental payable	154,419	20,309	174,728
Unearned revenue	4,508,844	-	4,508,844
Accrued interest payable	16,377	2,007	18,384
Matured compensated absences	29,443	-	29,443
<b>Long term liabilities:</b>			
Due within one year	1,883,668	205,614	2,089,282
Due in more than one year	4,083,047	809,987	4,893,034
<b>Total liabilities</b>	<b>11,639,803</b>	<b>1,192,466</b>	<b>12,832,269</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	14,252,400	6,807,618	21,060,018
<b>Restricted for:</b>			
Debt service	22,009	-	22,009
Capital projects	632,808	-	632,808
Streets	284,612	-	284,612
Public safety	227,323	-	227,323
Other purposes	39,422	-	39,422
Unrestricted	3,290,677	1,774,390	5,065,067
<b>Total net assets</b>	<b>\$ 18,749,251</b>	<b>\$ 8,582,008</b>	<b>\$ 27,331,259</b>

# City of Bedford Heights, Ohio

## Statement of Activities

### For The Year Ended December 31, 2011

	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 3,731,659	\$ 791,311	\$ -	\$ 88,900
Security of persons and property	10,674,485	399,187	148,839	-
Public health and welfare	384,536	2,606,447	-	-
Leisure time activities	1,593,836	239,949	-	-
Community development	433,382	281,880	-	-
Basic utility services	677,440	-	-	-
Transportation	1,651,457	-	-	855,284
Interest and fiscal charges	151,458	-	-	-
Total governmental activities	19,298,253	4,318,774	148,839	944,184
Business-type activities:				
Sewer	3,019,142	2,738,368	-	-
Total	\$ 22,317,395	\$ 7,057,142	\$ 148,839	\$ 944,184

General revenues:

- Property taxes and other local taxes levied for:
  - General purposes
  - Special revenues
  - Debt service
  - Capital projects
- Income taxes levied for:
  - General purposes
- Grants and entitlements not restricted to specific programs
- Investment income
- Miscellaneous income
- Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business Type Activities	Total
\$ (2,851,448)	\$ -	\$ (2,851,448)
(10,126,459)	-	(10,126,459)
2,221,911	-	2,221,911
(1,353,887)	-	(1,353,887)
(151,502)	-	(151,502)
(677,440)	-	(677,440)
(796,173)	-	(796,173)
<u>(151,458)</u>	<u>-</u>	<u>(151,458)</u>
(13,886,456)	-	(13,886,456)
-	<u>(280,774)</u>	<u>(280,774)</u>
<u>(13,886,456)</u>	<u>(280,774)</u>	<u>(14,167,230)</u>
1,257,345	-	1,257,345
2,928,534	-	2,928,534
468,657	-	468,657
468,656	-	468,656
7,861,087	-	7,861,087
2,192,864	-	2,192,864
1,006	89	1,095
19,421	16,537	35,958
<u>(363,407)</u>	<u>363,407</u>	<u>-</u>
<u>14,834,163</u>	<u>380,033</u>	<u>15,214,196</u>
947,707	99,259	1,046,966
<u>17,801,544</u>	<u>8,482,749</u>	<u>26,284,293</u>
\$ <u>18,749,251</u>	\$ <u>8,582,008</u>	\$ <u>27,331,259</u>

# City of Bedford Heights, Ohio

## Balance Sheet Governmental Funds

**December 31, 2011**

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	<u>General</u>	<u>Fire Levy</u>
Assets:		
Cash and cash equivalents	\$ 2,248,354	\$ 112,245
Accounts receivable	424,623	-
Intergovernmental receivable	419,849	29,369
Supplies and materials inventory	14,507	-
Prepaid assets	44,250	-
Interfund receivable	20,600	-
Property taxes receivable	1,298,382	721,324
Income taxes receivable	<u>1,568,261</u>	<u>-</u>
Total assets	\$ <u>6,038,826</u>	\$ <u>862,938</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 282,272	\$ 4,714
Accrued wages and benefits	141,860	31,387
Intergovernmental payable	69,649	38,598
Interfund payable	-	-
Deferred revenue	1,759,237	750,693
Matured compensated absences	<u>10,000</u>	<u>-</u>
Total liabilities	<u>2,263,018</u>	<u>825,392</u>
Fund balances:		
Nonspendable	58,757	-
Restricted	38,159	37,546
Committed	15,417	-
Assigned	59,078	-
Unassigned (deficits)	<u>3,604,397</u>	<u>-</u>
Total fund balances (deficits)	<u>3,775,808</u>	<u>37,546</u>
Total liabilities and fund balances	\$ <u>6,038,826</u>	\$ <u>862,938</u>

See Accompanying Notes to the Basic Financial Statements

<u>Issue 24 Safety Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 67,726	\$ 617,549	\$ 720,612	\$ 3,766,486
-	23,599	230,468	678,690
87,126	28,783	337,021	902,148
-	-	72,244	86,751
-	-	-	44,250
-	-	-	20,600
2,139,927	480,883	625,146	5,265,662
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,568,261</u>
\$ <u>2,294,779</u>	\$ <u>1,150,814</u>	\$ <u>1,985,491</u>	\$ <u>12,332,848</u>
\$ 35,931	\$ 8,341	\$ 21,684	\$ 352,942
38,307	-	399,509	611,063
39,300	-	6,872	154,419
-	-	20,600	20,600
2,227,053	509,665	1,074,726	6,321,374
19,443	-	-	29,443
<u>2,360,034</u>	<u>518,006</u>	<u>1,523,391</u>	<u>7,489,841</u>
-	-	-	58,757
-	271,717	477,903	825,325
-	361,091	361,902	738,410
-	-	-	59,078
<u>(65,255)</u>	<u>-</u>	<u>(377,705)</u>	<u>3,161,437</u>
<u>(65,255)</u>	<u>632,808</u>	<u>462,100</u>	<u>4,843,007</u>
\$ <u>2,294,779</u>	\$ <u>1,150,814</u>	\$ <u>1,985,491</u>	\$ <u>12,332,848</u>

# City of Bedford Heights, Ohio

## Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

**December 31, 2011**

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Total Governmental fund balances \$ 4,843,007

*Amounts reported for governmental activities in the Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 17,548,149

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

Property and other taxes	\$ 756,818
Municipal income taxes	142,838
Charges for services	187,950
Intergovernmental	<u>724,924</u>

Total 1,812,530

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (16,377)

Internal service funds are used by management to charge the costs of certain activities, such Worker's Compensation Insurance and Health Insurance that are not reported in the Governmental Funds. The net revenue (expense) of the Internal Service Fund is reported with Governmental Activities. (348,547)

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

General obligation bonds	(2,736,900)
OPWC loans payable	(223,853)
Capital lease payable	(334,996)
Compensated absences	<u>(1,793,762)</u>

Total (5,089,511)

*Net assets of governmental activities* \$ 18,749,251

See Accompanying Notes to the Basic Financial Statements

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# City of Bedford Heights, Ohio

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

**For the Year Ended December 31, 2011**

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	<u>General</u>	<u>Fire Levy</u>
Revenues:		
Property taxes	\$ 1,213,794	\$ 664,598
Municipal income taxes	8,008,081	-
Intergovernmental	965,780	196,024
Charges for services	2,737,659	-
Licenses and permits	226,149	-
Fines and forfeitures	142,135	-
Special assessments	-	-
Investment income	277	-
Miscellaneous income	<u>288,544</u>	<u>258</u>
Total revenues	<u>13,582,419</u>	<u>860,880</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	2,748,581	2,789,283
Public health and welfare	373,784	-
Leisure time activities	1,291,425	-
Community development	380,053	-
Basic utility services	647,880	-
Transportation	9,829	-
General government	3,474,303	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>
Total expenditures	<u>8,925,855</u>	<u>2,789,283</u>
Excess of revenues over (under) expenditures	<u>4,656,564</u>	<u>(1,928,403)</u>
Other financing sources (uses):		
Transfers – in	-	2,000,000
Transfers – out	<u>(4,326,657)</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,326,657)</u>	<u>2,000,000</u>
Net change in fund balances	329,907	71,597
Fund balances (deficits) at beginning of year	<u>3,445,901</u>	<u>(34,051)</u>
Fund balances (deficits) at end of year	\$ <u><u>3,775,808</u></u>	\$ <u><u>37,546</u></u>

See Accompanying Notes to the Basic Financial Statements

<u>Issue 24 Safety Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,971,068	\$ 443,064	\$ 575,983	\$ 4,868,507
-	-	-	8,008,081
174,252	995,784	989,298	3,321,138
-	-	352,235	3,089,894
-	176,594	30,650	433,393
-	-	2,535	144,670
-	-	1,054	1,054
-	601	-	878
-	40	359,813	648,655
<u>2,145,320</u>	<u>1,616,083</u>	<u>2,311,568</u>	<u>20,516,270</u>
3,200,366	-	1,509,537	10,247,767
-	-	-	373,784
-	48,134	16,011	1,355,570
-	-	49,805	429,858
-	-	-	647,880
-	1,294,080	828,586	2,132,495
-	4,837	36,564	3,515,704
-	10,349	-	10,349
-	18,655	773,847	792,502
-	-	155,519	155,519
<u>3,200,366</u>	<u>1,376,055</u>	<u>3,369,869</u>	<u>19,661,428</u>
<u>(1,055,046)</u>	<u>240,028</u>	<u>(1,058,301)</u>	<u>854,842</u>
1,000,000	-	1,326,657	4,326,657
-	-	-	(4,326,657)
<u>1,000,000</u>	<u>-</u>	<u>1,326,657</u>	<u>-</u>
(55,046)	240,028	268,356	854,842
<u>(10,209)</u>	<u>392,780</u>	<u>193,744</u>	<u>3,988,165</u>
\$ <u>(65,255)</u>	\$ <u>632,808</u>	\$ <u>462,100</u>	\$ <u>4,843,007</u>

# City of Bedford Heights, Ohio

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

### For the Year Ended December 31, 2011

Net change in fund balances - total governmental funds \$ 854,842

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

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

Capital outlay	\$ 904,893	
Depreciation	<u>(1,390,263)</u>	
Total		(485,370)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (7,989)

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

Property and other taxes	254,685	
Municipal income taxes	(146,994)	
Intergovernmental	(35,250)	
Charges for services	<u>20,528</u>	
Total		92,969

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 691,305

Internal service funds are used by management to charge costs of certain activities, such as worker's compensation insurance and health insurance. The net revenue (expense) of the Internal Service Funds are reported with the Governmental Activities. (78,260)

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	(225,048)	
Capital leases payable	101,197	
Accrued interest payable	<u>4,061</u>	
Total		<u>(119,790)</u>

Change in net assets of governmental activities \$ 947,707

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

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

**For the Year Ended December 31, 2011**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 1,225,705	\$ 1,356,438	\$ 1,213,794	\$ (142,644)
Municipal income taxes	8,967,447	7,719,439	7,898,938	179,499
Intergovernmental	1,058,244	910,967	932,150	21,183
Charges for services	3,126,333	2,691,238	2,753,817	62,579
Licenses and permits	279,577	240,668	246,264	5,596
Fines and forfeitures	165,861	142,778	146,098	3,320
Miscellaneous income	<u>281,592</u>	<u>242,403</u>	<u>248,039</u>	<u>5,637</u>
Total revenues	<u>15,104,759</u>	<u>13,303,931</u>	<u>13,439,100</u>	<u>135,169</u>
<b>Expenditures:</b>				
Current operations and maintenance:				
Security of persons and property	2,971,630	3,005,855	2,868,948	136,907
Public health	374,375	386,175	372,833	13,342
Leisure time activities	1,349,808	1,403,358	1,281,661	121,697
Community development	381,945	396,795	379,712	17,083
Basic utility services	722,500	716,555	645,120	71,435
Transportation	20,000	16,450	9,708	6,742
General government	<u>3,283,258</u>	<u>3,677,338</u>	<u>3,456,080</u>	<u>221,258</u>
Total expenditures	<u>9,103,516</u>	<u>9,602,526</u>	<u>9,014,062</u>	<u>588,464</u>
Excess of revenues over (under) expenditures	6,001,243	3,701,405	4,425,038	723,633
<b>Other financing sources (uses):</b>				
Transfers – in	300,000	300,000	300,000	-
Transfers – out	(4,715,000)	(4,326,657)	(4,326,657)	-
Advances – out	-	(20,600)	(20,600)	-
Total other financing sources (uses)	<u>(4,415,000)</u>	<u>(4,047,257)</u>	<u>(4,047,257)</u>	<u>-</u>
Net change in fund balance	1,586,243	(345,852)	377,781	723,633
Fund balance at beginning of year	423,194	423,194	423,194	-
Encumbrances at end of year	-	-	<u>35,687</u>	<u>35,687</u>
Fund balance at end of year	\$ <u>2,009,437</u>	\$ <u>77,342</u>	\$ <u>836,662</u>	\$ <u>759,320</u>

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

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

**For the Year Ended December 31, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 680,947	\$ 729,769	\$ 664,598	\$ (65,171)
Intergovernmental	640,655	192,378	196,024	3,646
Miscellaneous income	<u>94,345</u>	<u>28,330</u>	<u>28,867</u>	<u>537</u>
Total revenues	1,415,947	950,477	889,489	(60,988)
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>2,922,105</u>	<u>2,957,910</u>	<u>2,798,240</u>	<u>159,670</u>
Excess of revenues over (under) expenditures	(1,506,158)	(2,007,433)	(1,908,751)	98,682
Other financing sources (uses):				
Transfers – in	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>
Net change in fund balance	493,842	(7,433)	91,249	98,682
Fund balance at beginning of year	19,245	19,245	19,245	-
Encumbrances at end of year	<u>-</u>	<u>-</u>	<u>1,751</u>	<u>1,751</u>
Fund balance at end of year	\$ <u>513,087</u>	\$ <u>11,812</u>	\$ <u>112,245</u>	\$ <u>100,433</u>

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

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

### For the Year Ended December 31, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 2,020,145	\$ 2,125,000	\$ 1,971,068	\$ (153,932)
Intergovernmental	-	-	174,252	174,252
Total revenues	2,020,145	2,125,000	2,145,320	20,320
Expenditures:				
Current operations and maintenance:				
Security of persons and property	3,351,850	3,112,250	3,080,539	31,711
Excess of revenues over (under) expenditures	(1,331,705)	(987,250)	(935,219)	52,031
Other financing sources (uses):				
Transfers – in	1,190,000	1,000,000	1,000,000	-
Net change in fund balance	(141,705)	12,750	64,781	52,031
Fund balance at beginning of year	-	-	-	-
Encumbrances at end of year	-	-	2,945	2,945
Fund balance at end of year	\$ (141,705)	\$ 12,750	\$ 67,726	\$ 54,976

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

## Statement of Fund Net Assets Proprietary Funds

**December 31, 2011**

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
Assets:		
Current assets		
Cash and cash equivalents	\$ 533,072	\$ 289,578
Accounts receivable	1,590,483	-
Intergovernmental receivable	-	239,079
Supplies and materials inventory	62,320	-
Prepaid assets	47,881	-
Total current assets	<u>2,233,756</u>	<u>528,657</u>
Noncurrent assets:		
Non-depreciable capital assets	99,200	-
Depreciable capital assets, net	7,441,518	-
Total noncurrent assets	<u>7,540,718</u>	<u>-</u>
Total assets	<u>9,774,474</u>	<u>528,657</u>
Liabilities:		
Current liabilities:		
Accounts payable	107,360	-
Accrued wages and benefits	47,189	-
Intergovernmental payable	20,309	-
Accrued interest payable	2,007	-
Claims payable	-	336,938
Accrued compensated absences	111,114	-
General obligation bond payable	94,500	-
Total current liabilities	<u>382,479</u>	<u>336,938</u>
Long-term liabilities (net of current portion):		
Claims payable	-	540,266
Accrued compensated absences	171,387	-
General obligation bond payable	638,600	-
Total long-term liabilities	<u>809,987</u>	<u>540,266</u>
Total liabilities	<u>1,192,466</u>	<u>877,204</u>
Net assets:		
Invested in capital assets, net of related debt	6,807,618	-
Unrestricted	<u>1,774,390</u>	<u>(348,547)</u>
Total net assets	<u>\$ 8,582,008</u>	<u>\$ (348,547)</u>

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

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

**For the Year Ended December 31, 2011**

	<u>Business-Type Activities</u> Sewer Treatment Fund	<u>Governmental Activities</u> Internal Service Fund
Operating revenues:		
Charges for services	\$ 2,738,368	\$ 1,934,626
Other	<u>16,537</u>	<u>-</u>
Total operating revenues	<u>2,754,905</u>	<u>1,934,626</u>
Operating expenses:		
Personal services	1,713,548	-
Travel and education	10,746	-
Contractual services	687,252	-
Supplies and materials	181,438	-
Claims	-	2,013,014
Depreciation	<u>399,539</u>	<u>-</u>
Total operating expenses	<u>2,992,523</u>	<u>2,013,014</u>
Operating loss	<u>(237,618)</u>	<u>(78,388)</u>
Non-operating revenues (expenses):		
Investment income	89	128
Interest and fiscal charges	<u>(26,619)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(26,530)</u>	<u>128</u>
Loss before contributions	(264,148)	(78,260)
Capital contributions	<u>363,407</u>	<u>-</u>
Change in net assets	99,259	(78,260)
Net assets at beginning of year	<u>8,482,749</u>	<u>(270,287)</u>
Net assets at end of year	<u>\$ 8,582,008</u>	<u>\$ (348,547)</u>

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

## Statement of Cash Flows Proprietary Fund Types

**For the Year Ended December 31, 2011**

	Business-Type Activities <u>Sewer Treatment Fund</u>	Governmental Activities <u>Internal Service Fund</u>
Cash flows from operating activities		
Cash received from customers	\$ 2,677,917	\$ -
Cash received from interfund services	-	1,838,916
Cash payments for goods and services	(847,274)	-
Cash payments to employees for services and benefits	(1,708,130)	-
Cash payments for materials and supplies	(135,256)	-
Cash payments for claims	-	(1,796,451)
Cash received for other operating activities	<u>16,537</u>	<u>-</u>
Net cash provided by operating activities	<u>3,794</u>	<u>42,465</u>
Cash flows from capital and related financing activities		
Acquisition and construction of assets	(54,506)	-
Principal paid	(92,350)	-
Interest paid	<u>(26,849)</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(173,705)</u>	<u>-</u>
Cash flows from investing activities		
Interest received	<u>89</u>	<u>128</u>
Net increase (decrease) in cash and cash equivalents	(169,822)	42,593
Cash and cash equivalents at beginning of year	<u>702,894</u>	<u>246,985</u>
Cash and cash equivalents at end of year	\$ <u><u>533,072</u></u>	\$ <u><u>289,578</u></u>
<i>Reconciliation of operating loss to net cash provided by operating activities:</i>		
Operating loss	\$ (237,618)	\$ (78,388)
Adjustments:		
Depreciation	399,539	-
Changes in assets/liabilities		
Increase in accounts receivable	(60,451)	-
Increase in intergovernmental receivable	-	(95,710)
Increase in supplies and materials inventory	(724)	-
Increase in prepaid assets	(18,248)	-
Decrease in accounts payable	(88,332)	-
Increase in accrued wages and benefits	65	-
Increase in claims payable	-	216,563
Decrease in accrued compensated absences	10,521	-
Increase in intergovernmental payable	<u>(958)</u>	<u>-</u>
Net cash provided by operating activities	\$ <u><u>3,794</u></u>	\$ <u><u>42,465</u></u>

### Schedule of non-cash investing, capital, and financing activities:

As of December 31, 2011, the Sewer Fund received \$363,407 as contributions to capital assets from governmental activities.

See Accompanying Notes to the Basic Financial Statements

**City of Bedford Heights, Ohio**

Statement of Fiduciary Net Assets  
Agency Funds

**December 31, 2011**

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	<u>Agency</u>
Assets:	
Cash and cash equivalents	\$ <u>52,146</u>
Liabilities:	
Accounts payable	\$ 5,250
Intergovernmental payable	<u>46,896</u>
Total liabilities	<u>52,146</u>

See Accompanying Notes to the Basic Financial Statements

# City of Bedford Heights, Ohio

## Notes to the Basic Financial Statements

### **For the Year Ended December 31, 2011**

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#### **Note 1: The Reporting Entity**

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Bedford Heights this includes police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The City's departments include a public safety department, a public service department, a street maintenance department, a sanitation system department, 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 Mayor's Court (the Court), which provides judicial services, is responsible for the levying and collecting of fines and forfeitures under state and local laws, and their subsequent distribution to various government agencies. The City budgets and appropriates funds for the operation of the Court and is ultimately responsible for any operating deficits sustained by the Court. The City's share of the fines collected by the Court, along with its share of the Court's administrative and operating costs, is recorded in the City's general fund. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government unit itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

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

#### **Note 2: Summary of Significant Accounting Policies**

The financial statements of the City of Bedford Heights 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 City also applies Financial Accounting Standards Board Codification, Statements and Interpretations issued after November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **A. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net assets 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 assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The activity of the internal service funds are eliminated to avoid doubling up revenues and expenses.

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

#### *Fund Financial Statements*

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Fund Accounting**

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

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

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

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

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

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

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

*Proprietary Funds* - The proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as either Enterprise or Internal Service.

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Fund Accounting (continued)**

*Fiduciary Funds* – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's agency funds are for the Veterans Memorial, Glenwillow Sanitary Sewer Maintenance and Repair, Youth Scholarship, K-9 Program and the Mayor's Court.

#### **C. Measurement Focus**

##### *Government-Wide Financial Statements*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds.

##### *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 current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City's finances meets the cash needs of its proprietary activities.

#### **D. Basis of Accounting**

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***D. Basis of Accounting (continued)***

##### *Revenues – Exchange and Non-Exchange Transactions*

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

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

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

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

##### *Deferred Revenue*

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***D. Basis of Accounting (continued)***

##### *Expenses/Expenditures*

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

#### ***E. Budgetary Process***

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

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

##### *Tax Budget*

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

##### *Estimated Resources*

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

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments are made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission finds the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2011. The amounts reported in the budgetary as final reflect the amounts in the final amended official certificate of estimated resources issued during 2011.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***E. Budgetary Process (continued)***

##### *Annual Estimate*

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

##### *Appropriations*

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

##### *Lapsing of Appropriations*

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

##### *Budgeted Level of Expenditure*

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

##### *Encumbrances*

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***F. Cash and Cash Equivalents***

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

During fiscal year 2011, the City invested in STAR Ohio, money market accounts and municipal savings accounts.

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2011.

Following Ohio statutes, City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Individual investments are specifically identified as to which fund or funds the investment relates, and which funds are to be credited with the related interest earnings. During 2011, interest revenue credited to the general fund amounted to \$277.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

#### ***G. Inventory***

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

#### ***I. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City's capitalization threshold is five thousand dollars. The City's infrastructure consists of streets and sanitary and storm sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***J. Interfund Balances***

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received and from short-term interfund loans are classified as “interfund receivables/payables.” Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### ***K. Compensated Absences***

The City reports compensated absences in accordance with the provisions of GASB No. 16, “*Accounting for Compensated Absences*.” Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

#### ***L. Accrued Liabilities and Long-Term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and 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 fund financial statements when due.

#### ***M. Fund Balance***

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **M. Fund Balance (continued)**

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

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

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance 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 are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,206,174 of restricted net assets, none of which is restricted by enabling legislation.

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

#### ***O. Operating Revenues and Expenses***

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

#### ***P. Interfund Activity***

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

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

#### ***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither item occurred in 2011.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **R. Estimates**

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

#### **S. Subsequent Events**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through September 6, 2012, the date the financial statements were available to be issued.

#### **T. Comparative Data/Reclassifications**

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2010 financial statements in order to conform to the 2011 presentation.

### **Note 3: Change in Accounting Principles**

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of the City's financial statements.

GASB Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The City has no such investments and thus, the implementation of this Statement has no impact on the City's financial statements or disclosures.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2011

### Note 4: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Fire Levy</u>	<u>Issue 24 Levy</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Non-spendable:						
Prepays	\$ 44,250	\$ -	\$ -	\$ -	\$ -	\$ 44,250
Inventory	<u>14,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,507</u>
Total non-spendable	<u>58,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,757</u>
Restricted for:						
Fire levy	-	37,546	-	-	-	37,546
Debt service payments	-	-	-	-	22,009	22,009
State highway	-	-	-	-	49,634	49,634
Street construction	-	-	-	-	234,978	234,978
Law enforcement trust	-	-	-	-	2,544	2,544
DUI enforcement	-	-	-	-	2,690	2,690
JAG Byrne grant	-	-	-	-	948	948
COPS grant	-	-	-	-	33,315	33,315
Commissary	-	-	-	-	81,588	81,588
Mayor's court	-	-	-	-	9,703	9,703
Juvenile community diversion	-	-	-	-	748	748
Sobriety checkpoint	-	-	-	-	68	68
NOPEC energy	-	-	-	-	39,422	39,422
Garden club	-	-	-	-	256	256
Capital improvements	-	-	-	271,717	-	271,717
Tax incentive review	19,992	-	-	-	-	19,992
Other purposes	<u>18,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,167</u>
Total restricted	<u>38,159</u>	<u>37,546</u>	<u>-</u>	<u>271,717</u>	<u>477,903</u>	<u>825,325</u>
Committed to:						
Capital improvements	-	-	-	361,091	-	361,091
Safety department equipment	-	-	-	-	58,173	58,173
Ambulance billing	-	-	-	-	253,493	253,493
Cable TV program	-	-	-	-	50,236	50,236
Termination benefits	<u>15,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,417</u>
Total committed	<u>15,417</u>	<u>-</u>	<u>-</u>	<u>361,091</u>	<u>361,902</u>	<u>738,410</u>
Assigned to:						
Other purposes	<u>59,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,078</u>
Unassigned (deficit)	<u>3,604,397</u>	<u>-</u>	<u>(65,255)</u>	<u>-</u>	<u>(377,705)</u>	<u>3,161,437</u>
Total fund balance	\$ <u>3,775,808</u>	\$ <u>37,546</u>	\$ <u>(65,255)</u>	\$ <u>632,808</u>	\$ <u>462,100</u>	\$ <u>4,843,007</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

### **Note 5: Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statements of Revenue, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual 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 identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than a reservation of fund balance (GAAP basis).

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

	<u>Net Change in Fund Balances</u>		
	<u>General</u>	<u>Fire Levy</u>	<u>Issue 24 Levy</u>
GAAP basis	\$ 329,907	\$ 71,597	\$ (55,046)
<u>Increase (Decrease) due to:</u>			
Revenue accruals	192,190	28,609	-
Expenditure accruals	(184,683)	(10,708)	116,882
Encumbrances	35,687	1,751	2,945
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	<u>4,680</u>	<u>-</u>	<u>-</u>
Budget basis	\$ <u>377,781</u>	\$ <u>91,249</u>	\$ <u>64,781</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 6: Deposits and Investments**

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

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2011

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### **Note 6: Deposits and Investments (continued)**

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

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

#### **A. Deposits**

*Custodial credit risk* is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$3,891,946 and the bank balance was \$4,205,593. Of the bank balance, \$2,398,120 was covered by Federal depository insurance and \$1,807,473 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

#### **B. Investments**

The City has a formal investment policy. The City follows GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools", and reports all its investments at fair value. As of December 31, 2011, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
STAR Ohio	\$ <u>749,336</u>	<u>N/A</u>

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 6: Deposits and Investments (continued)**

#### ***B. Investments (continued)***

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

*Credit Risk* is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the city are registered and carry a "AAAm" money market rating by Standard & Poor's.

*Concentration of Credit Risk* is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2011:

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

### **Note 7: Receivables**

Receivables at December 31, 2011 consisted primarily of taxes, accounts, special assessments and intergovernmental receivables arising from shared revenues. All receivables are considered fully collectible.

#### ***A. Property Taxes***

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections for 2010 taxes. Property tax payments received during 2011 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Fiscal Officer at 35 percent of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2009 affecting collections beginning in 2010.

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 7: Receivables (continued)**

#### **A. Property Taxes (continued)**

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. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

Tangible personal property used in business (except for public utilities) was phased out – the assessment percentage for all property including inventory for 2011 is zero. Amounts for prior year unpaid tangible personal property taxes may still be collected. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

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

The assessed values per category applicable to the 2011 tax are as follows:

#### Assessed Value

Category	
Real estate	\$ 238,289,960
Public utility	<u>4,966,350</u>
Total	\$ <u>243,256,310</u>

The tax rate levied to finance the City's services for the years ended December 31, 2011 and December 31, 2010 was \$21.90 per \$1,000 of real estate and personal property valuation.

#### **B. Income Tax**

The City levies and collects an income tax of two percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least monthly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The City, by ordinance, allocates income tax revenues and expenditures for collecting, administering, and enforcing the tax to the general fund.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 7: Receivables (continued)**

#### ***C. Intergovernmental***

A summary of intergovernmental receivables is as follows:

Governmental activities:	<u>Amounts</u>
Local governmental	\$ 348,682
Homestead and rollback	214,390
Gasoline tax	181,355
Motor vehicle license	91,502
CAT tax	32,385
Estate tax	13,530
Permissive auto registration	6,303
Miscellaneous	<u>253,080</u>
Total	\$ <u><u>1,141,227</u></u>

### **Note 8: Interfund Transactions**

#### ***A. Interfund Transfers***

Interfund transfers for the year ended December 31, 2011, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>
	<u>General</u>
	<u>Fund</u>
Fire levy fund	\$ 2,000,000
Issue 24 levy fund	1,000,000
Non-major governmental funds	<u>1,326,657</u>
Total	\$ <u><u>4,326,657</u></u>

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2011

### Note 8: Interfund Transactions (continued)

#### B. Interfund Activity

Interfund activity for the year ended December 31, 2011 consisted of the following:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	Nonmajor Governmental Funds
	\$ <u>20,600</u>

The interfund receivables and payables listed above result from a difference in the timing of when expenses are recognized in accordance with generally accepted accounting principles and when the related interfund subsidies are budgeted for payment on a cash basis.

### Note 9: Capital Assets

A summary of changes in capital assets during 2011 follows:

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/11</u>
<b>Governmental activities:</b>				
Non-depreciable assets:				
Land	\$ 1,786,987	\$ -	\$ -	\$ 1,786,987
Construction in progress	<u>276,984</u>	<u>742,347</u>	<u>(742,347)</u>	<u>276,984</u>
Total non-depreciable assets	<u>2,063,971</u>	<u>742,347</u>	<u>(742,347)</u>	<u>2,063,971</u>
Depreciable assets:				
Buildings and improvements	18,715,109	12,922	-	18,728,031
Furniture, fixtures and equipment	2,624,806	149,624	(32,071)	2,742,359
Vehicles	3,292,157	-	-	3,292,157
Infrastructure:				
Streets	<u>14,193,300</u>	<u>742,347</u>	<u>(159,769)</u>	<u>14,775,878</u>
Total depreciable assets	<u>38,825,372</u>	<u>904,893</u>	<u>(191,840)</u>	<u>39,538,425</u>
Less accumulated depreciation:				
Buildings and improvements	(10,095,947)	(508,980)	-	(10,604,927)
Furniture, fixtures and equipment	(2,001,216)	(110,698)	32,071	(2,079,843)
Vehicles	(2,193,312)	(203,780)	-	(2,397,092)
Infrastructure:				
Streets	<u>(8,557,360)</u>	<u>(566,805)</u>	<u>151,780</u>	<u>(8,972,385)</u>
Total accumulated depreciation	<u>(22,847,835)</u>	<u>(1,390,263)</u>	<u>183,851</u>	<u>(24,054,247)</u>
Total depreciable assets, net	<u>15,977,537</u>	<u>(485,370)</u>	<u>(7,989)</u>	<u>15,484,178</u>
Governmental activities capital assets, net	\$ <u>18,041,508</u>	\$ <u>256,977</u>	\$ <u>(750,336)</u>	\$ <u>17,548,149</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2011

### Note 9: Capital Assets (continued)

	Balance 12/31/10	Additions	Disposals	Balance 12/31/11
<b>Business-type activities:</b>				
Non-depreciable assets:				
Land	\$ 99,200	\$ -	\$ -	\$ 99,200
Construction in progress	<u>22,781</u>	<u>410,313</u>	<u>(433,094)</u>	<u>-</u>
Total non-depreciable assets	<u>121,981</u>	<u>410,313</u>	<u>(433,094)</u>	<u>99,200</u>
Depreciable assets:				
Buildings and improvements	3,956,788	69,687	-	4,026,475
Furniture, fixtures and equipment	7,527,301	7,600	-	7,534,901
Vehicles	387,181	-	-	387,181
Infrastructure:				
Sewers	<u>6,453,009</u>	<u>363,407</u>	<u>-</u>	<u>6,816,416</u>
Total depreciable assets	<u>18,324,279</u>	<u>440,694</u>	<u>-</u>	<u>18,764,973</u>
Less accumulated depreciation:				
Buildings and improvements	(2,807,333)	(83,782)	-	(2,891,115)
Furniture, fixtures and equipment	(6,053,540)	(177,007)	-	(6,230,547)
Vehicles	(332,147)	(4,662)	-	(336,809)
Infrastructure:				
Sewers	<u>(1,730,896)</u>	<u>(134,088)</u>	<u>-</u>	<u>(1,864,984)</u>
Total accumulated depreciation	<u>(10,923,916)</u>	<u>(399,539)</u>	<u>-</u>	<u>(11,323,455)</u>
Total depreciable assets, net	<u>7,400,363</u>	<u>41,155</u>	<u>-</u>	<u>7,441,518</u>
Business-type capital assets, net	\$ <u>7,522,344</u>	\$ <u>451,468</u>	\$ <u>(433,094)</u>	\$ <u>7,540,718</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 196,311
Security of persons and property	293,389
Public health and welfare	9,225
Leisure time activities	289,646
Community development	1,660
Basic utility services	26,870
Transportation	<u>573,162</u>
Total	\$ <u>1,390,263</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2011

### Note 10: Long-Term Debt

#### A. Original Issues

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

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds:			
Community Center Expansion	1994	4.90% - 6.00%	\$ 3,700,000
Jail Facilities	2004	2.00% - 4.00%	3,300,000
Various Purpose Bonds	2008	3.00% - 3.63%	1,352,800
Various Purpose Bonds	2008	3.00% - 3.63%	982,200
OPWC Loan:			
Sunset Drive Improvements	2009	0.00%	248,727

#### B. Bonded Debt and Other Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2011 was as follows:

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation bonds:					
Community center expansion, due through 2014	\$ 1,090,000	\$ -	\$ (250,000)	\$ 840,000	\$ 265,000
Refunded jail facilities improvement, due through 2018	1,185,000	-	(295,000)	890,000	310,000
Various purpose bonds, due through 2018	<u>1,134,550</u>	<u>-</u>	<u>(127,650)</u>	<u>1,006,900</u>	<u>130,500</u>
Total general obligation bonds	<u>3,409,550</u>	<u>-</u>	<u>(672,650)</u>	<u>2,736,900</u>	<u>705,500</u>
Ohio Public Works Commission Loan:					
Sunset Drive improvements, due through 2030	<u>242,508</u>	<u>-</u>	<u>(18,655)</u>	<u>223,853</u>	<u>6,218</u>
Other long-term obligations:					
Claims payable	660,641	1,952,550	(1,735,987)	877,204	336,938
Capital leases payable	436,193	-	(101,197)	334,996	78,006
Accrued compensated absences	<u>1,568,714</u>	<u>872,153</u>	<u>(647,105)</u>	<u>1,793,762</u>	<u>757,006</u>
Total other long-term obligations	<u>2,665,548</u>	<u>2,824,703</u>	<u>(2,484,289)</u>	<u>3,005,962</u>	<u>1,171,950</u>
Total governmental activities long-term liabilities	\$ <u>6,317,606</u>	\$ <u>2,824,703</u>	\$ <u>(3,175,594)</u>	\$ <u>5,966,715</u>	\$ <u>1,883,668</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2011

### Note 10: Long-Term Debt (continued)

#### B. Bonded Debt and Other Long-Term Obligations

	Balance <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/11</u>	Due Within <u>One Year</u>
<b>Business-type activities:</b>					
General obligation bonds:					
Various purpose bonds, due through 2018	\$ 825,450	\$ -	\$ (92,350)	\$ 733,100	\$ 94,500
Other long-term obligations:					
Accrued compensated absences	<u>271,980</u>	<u>124,130</u>	<u>(113,609)</u>	<u>282,501</u>	<u>111,114</u>
Total business-type activities long-term liabilities	\$ <u>1,097,430</u>	\$ <u>124,130</u>	\$ <u>(205,959)</u>	\$ <u>1,015,601</u>	\$ <u>205,614</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2011 are as follows:

Year	General Obligation Bonds				OPWC Loans
	Governmental		Business-Type		Governmental
	Principal	Interest	Principal	Interest	Principal
2012	\$ 705,500	\$ 109,932	\$ 94,500	\$ 24,078	\$ 6,218
2013	733,350	81,434	96,650	21,243	12,436
2014	626,200	51,054	98,800	18,344	12,436
2015	159,050	23,500	105,950	15,256	12,436
2016	161,900	18,219	108,100	11,813	12,436
2017-2021	350,900	19,380	229,100	12,395	62,180
2022-2026	-	-	-	-	62,180
2027-2030	-	-	-	-	43,531
Totals	\$ <u>2,736,900</u>	\$ <u>303,519</u>	\$ <u>733,100</u>	\$ <u>103,129</u>	\$ <u>223,853</u>

General obligation bonds and notes are direct obligations of the City for which its full faith and credit are pledged for repayment.

In the event that revenues are not sufficient to meet annual principal and interest requirements, the City has reserved the right to levy property tax millage in an amount necessary to retire principal and interest.

Compensated absences will be paid from the general fund, street maintenance and repair fund, fire pension fund and sewer treatment fund.

The City's overall legal debt margin was \$22,093,922 at December 31, 2011.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 10: Long-Term Debt (continued)**

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

In 2008, the City issued a par amount of \$2,335,000 of Various Improvement bonds with a variable coupon rate ranging from 3.00 to 3.63 percent. The bonds were issued for the purposes of improving buildings and wastewater treatment systems, including, but not limited to upgrades to lighting fixtures, HVAC modifications and various additional building improvements to conserve energy.

In 2004, the City issued a par amount of \$3,300,000 of Jail Facilities bonds with an average coupon rate of 2.518 percent to advance refund the portion of the 1995 Prior Issue stated to mature on December 1, 2018 in the aggregate principal amount of \$1,340,000 with an interest rate of 2.9 percent. The net proceeds from the issuances of the general obligation bonds and cash payment of \$49,496 were used to purchase U.S Government Securities in the amount of \$1,442,145 and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until the Jail Facilities bonds are called on December 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the Jail Facilities bonds were removed from the City's government-wide financial statements. As of December 31, 2011, the amount of defeased debt outstanding but removed from the financial statements amounted to \$495,000.

### **Note 11: Capital Leases**

The City has entered into lease agreements as lessee for financing which relate to various equipment and vehicles. These leases are long-term agreements which meet the criteria of a capital lease in accordance with the "Fair Value Measurements" topic of the FASB ASC. These amounts represent the present value of the minimum lease payments at the inception of the lease.

	<u>Governmental Activities</u>
Assets:	
Vehicles	\$ 882,912
Less: accumulated depreciation	<u>(453,961)</u>
Total	<u>\$ 428,951</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 11: Capital Leases (continued)**

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

<u>Year</u>	<u>Governmental Activities</u>
2012	\$ 92,845
2013	92,845
2014	92,845
2015	<u>92,845</u>
Total minimum lease payments	371,380
Less: Amount representing interest	<u>(36,384)</u>
Present value of minimum lease payments	\$ <u><u>334,996</u></u>

Lease payments are made from the Street Maintenance and Repair fund and Ambulance Billing fund. The lease payments will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

### **Note 12: Compensated Absences**

In conformity with GASB Statement No. 16, the City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at December 31, 2011. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 13: Pension Plans**

#### ***A. Ohio Public Employees Retirement System***

The City of Bedford Heights participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. For the year ended December 31, 2011, the members in state and local classifications of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. Public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. The employer contribution rate for state and local employers for 2011 is 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.1 percent of covered payroll.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 were \$551,258, \$489,201, and \$491,807, respectively. The full amount has been contributed for 2010 and 2009. For 2011, 91.5 percent has been contributed, with the remainder being reported as a liability within the accrued wages and benefits.

#### ***B. Ohio Police and Fire Pension Fund***

The City of Bedford Heights contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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 for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 13: Pension Plans (continued)**

#### ***B. Ohio Police and Fire Pension Fund (continued)***

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$418,684 and \$508,898, respectively, for the year ended December 31, 2011, \$481,006 and \$531,397, respectively, for the year ended December 31, 2010, and \$479,426 and \$515,704, respectively, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. For 2011, 71.1 percent for police and 72.1 percent for firefighters has been contributed, with the remainder being reported as a liability within the accrued wages and benefits.

### **Note 14: Postemployment Benefits**

#### ***A. Ohio Public Employees Retirement System***

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

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

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH, 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14 percent of covered payroll 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 members do not make contributions to the OPEB Plan.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 14: Postemployment Benefits (continued)**

#### ***A. Ohio Public Employees Retirement System (continued)***

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2011, 2010, and 2009 were \$222,438, \$278,535, and \$355,614, respectively. The full amount has been contributed for 2010 and 2009. For 2011, 91.5 percent has been contributed, with the remainder being reported as a liability within the accrued wages and benefits.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

#### ***B. Ohio Police and Fire Pension Fund***

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits 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. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 14: Postemployment Benefits (continued)**

#### ***B. Ohio Police and Fire Pension Fund (continued)***

The Ohio Revised Code provides for contribution requirements of the participating employers and of the 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 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to health care plan was 6.75 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 1150 and 401(h).

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

The City's contributions to OP&F for police and fire for the years ending December 31, 2011, 2010, and 2009 were \$418,684 and \$508,898, \$481,006 and \$531,397, and \$479,426 and \$515,704, respectively, of which \$144,929 and \$143,128, \$166,502 and \$149,455, and \$165,955 and \$145,042, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2010 and 2009. For 2011, 71.1 percent for police and 72.1 percent for firefighters has been contributed, with the remainder being reported as a liability within the accrued wages and benefits.

### **Note 15: Risk Management**

#### ***A. Property and Liability***

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

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 15: Risk Management (continued)**

#### ***A. Property and Liability (continued)***

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989, the City of Maple Heights, whose commencement date is October 1, 1993, and the City of University Heights, whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the specific stop-loss coverage carried by the pool. The self-insurance pool will pay up to \$750,000 per policy year before the aggregate stop-loss coverage takes over. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2011, the City of Bedford Heights paid \$190,812 in premiums from the general fund, which represents 11.21% of the total premiums paid by all members. Financial information can be obtained by contacting the fiscal agent, the Finance Director of the City of Maple Heights, 5353 Lee Road, Maple Heights, Ohio, 44137.

#### ***B. Workers' Compensation Program***

Historically, under the Ohio Workers' Compensation System for public employer taxing districts, a city could be fully insured against worker compensation claims. The City paid a premium determined by the "base rate" as modified by the "experience factor". Prior to 2008, the City was a part of the fully insured program.

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

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

The City applied for and was accepted into the Retrospective Rating Plan in 2008. The City's Workers' Compensation Self-Insurance Fund (an Internal Service Fund) is used to account for and pay Workers' Compensation claims from the accumulated assets of the fund. The City's Retrospective Rating Plan provided for a \$200,000 catastrophic limit per claim and an aggregate claim limit of 200% fully insured premium that would have been payable by the City for the year in which the injury occurred.

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 15: Risk Management (continued)**

#### ***B. Workers' Compensation Program (continued)***

The claims liability of \$683,635 reported in the Workers' Compensation Self-Insurance Fund is based on the requirements of Governmental Standards Board No. 30, which requires a liability for the unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the Fund's claims liability amount in 2011 were as follows:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning of year	\$ 463,858	\$ 315,668
Incurred claims and changes in estimate	363,146	252,695
Claims payments	<u>(143,369)</u>	<u>(104,505)</u>
Unpaid claims, end of year	<u>\$ 683,635</u>	<u>\$ 463,858</u>

#### ***C. Health Insurance Benefits***

On March 1, 2009 the City began providing health, dental and vision insurance to its employees through a self-insurance plan. The City pays a monthly administrative premium, including a stop-loss fee, for the self-insurance plan. The City contracts with a third party administrator to direct this program. During 2011, self-insurance was in effect for claims up to \$85,000 per covered individual. Any claims exceeding this threshold are covered by stop-loss.

The claims liability of \$193,569 as estimated by the third party administrator and reported in the Hospitalization Reserve Fund (an Internal Service Fund) at December 31, 2011, is based on the requirements of GASB Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the Fund's claims liability amount in 2011 were as follows:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning of year	\$ 196,783	\$ 127,086
Incurred claims and changes in estimate	1,589,404	1,526,037
Claims payments	<u>(1,592,618)</u>	<u>(1,456,340)</u>
Unpaid claims, end of year	<u>\$ 193,569</u>	<u>\$ 196,783</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 16: Contingencies/Pending Litigation**

The City is currently involved in a variety of litigation. It is the opinion of the City's management that the ultimate settlement of such litigation will not result in a material adverse effect on the City's financial position and results of operations.

### **Note 17: Accountability**

There are deficits in the Issue 24 Safety Levy, Police Pension, Fire Pension, Cuyahoga County MEP Grant, Workers' Compensation Reserve and Hospitalization Reserve Funds of \$(65,255), \$(168,476), \$(195,229), \$(14,000), \$(292,499) and \$(56,048), respectively, caused by the application of generally accepted accounting principles to these funds. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

### **Note 18: Fair Value Measurements**

In accordance with the "Fair Value Measurements" topic of the FASB ASC, the City uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information, which has been internally developed.

In accordance with the "Fair Value Measurements" topic of the FASB ASC, the City has elected to not apply the provisions of topic 820, as discussed in paragraph 820-10-15-1A of the FASB ASC, no non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis.

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2011</u>
STAR Ohio	\$ -	\$ 749,336	\$ -	\$ 749,336
Sweep/Money Market Accounts	<u>1,804,841</u>	<u>-</u>	<u>-</u>	<u>1,804,841</u>
	\$ <u>1,804,841</u>	\$ <u>749,336</u>	\$ <u>-</u>	\$ <u>2,554,177</u>

# City of Bedford Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2011**

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### **Note 19: Jointly Governed Organizations**

#### ***A. Northeast Ohio Public Energy Council***

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 168 communities who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Bedford Heights did not contribute to NOPEC during 2011. Financial information can be obtained by contacting NOPEC, 31320 Solon Rd, Suite 20, Solon, Ohio 44139.

#### ***B. Chagrin/Southeast Council of Governments***

The Chagrin/Southeast Council of Governments operates the Chagrin/Southeast HazMat Response Team. The team was formed in 1990 to assist local fire departments in responding to incidents involving industrial chemicals. In 2011, the City contributed \$3,500 to the organization. The Chagrin/Southeast Council of Governments financial statements may be obtained by contacting the Finance Director of the City of Bedford Heights, Ohio.

The Council has established two subsidiary organizations, the West Shore Hazardous Materials Committee which provides hazardous material protection and assistance, and the West Shore Enforcement Bureau which provides extra assistance to cities in the form of a Swat Team.

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# Dave Yost • Auditor of State

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

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

To the Members of City Council

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2011 which collectively comprise the City's basic financial statements and have issued our report thereon dated September 6, 2012, wherein we noted the City implemented Governmental Accounting Standard Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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, providing an opinion 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*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 6, 2012.

We intend this report solely for the information and use of management, City Council, and others within the City. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

September 6, 2012



# Dave Yost • Auditor of State

**CITY OF BEDFORD HEIGHTS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 27, 2012**