

**CITY OF HIGHLAND HEIGHTS, OHIO**

**AUDIT REPORT**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**





Mary Taylor, CPA  
Auditor of State

City Council  
City of Highland Heights  
5827 Highland Road  
Highland Heights, Ohio 44143

We have reviewed the *Independent Auditor's Report* of the City of Highland Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 17, 2008

**This Page is Intentionally Left Blank.**

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**AUDIT REPORT**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

---

---

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis for the Year ended December 31, 2007	3-9
Basic Financial Statements for the Year ended December 31, 2007:	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Fiduciary Net Assets - Fiduciary Funds	18
Notes to the Basic Financial Statements	19-53
Management's Discussion and Analysis for the Year ended December 31, 2006	55-61
Basic Financial Statements for the Year ended December 31, 2006:	
Statement of Net Assets	62
Statement of Activities	63
Balance Sheet - Governmental Funds	64

**This Page is Intentionally Left Blank.**

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**AUDIT REPORT**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

---

---

TABLE OF CONTENTS

	<u>PAGE</u>
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	65
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	66
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	67
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	68
Statement of Fiduciary Net Assets - Fiduciary Funds	69
Notes to the Basic Financial Statements	70-104
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	105-106
Status of Prior Citations and Recommendations	107

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

---

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

To the Members of City Council  
City of Highland Heights, Ohio

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, as of and for the years ended December 31, 2007 and 2006, 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 of Highland Heights, Ohio'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 that 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, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Ohio, as of December 31, 2007 and 2006, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2008, on our consideration of the City of Highland Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



The Management's Discussion and Analysis on pages 3 through 9 for 2007 and pages 55 through 61 for 2006 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

*James G. Zupka, CPA, Inc.*

James G. Zupka, CPA, Inc.  
Certified Public Accountants

June 9, 2008

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

---

---

The discussion and analysis of the City of Highland Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2007. 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 INFORMATION**

Key financial highlights for 2007 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$46,311,600. Of this amount, \$4,917,916 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets increased by \$2,388,942 from the prior year.
- Total liabilities decreased by \$992,948 from prior year.
- The unreserved fund balance for the general fund was \$4,082,988, or 48.0 percent of the total general fund expenditures (not including other financing uses).

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: **1)** government-wide statements; **2)** fund financial statements; and **3)** notes to the financial statements.

**Government-Wide Statements**

The government-wide statements are designed to provide readers with a broad overview of the City of Highland Heights' finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets presents information on all of the City's 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 is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utility services, community environment, leisure time activities, and public health services. There are no business-type activities reported for the City.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

---

---

**Fund Financial Statements**

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be 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. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in the financial statements.

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

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**THE CITY AS A WHOLE**

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets increased from a year ago - increasing from \$43,922,658 in 2006 to \$46,311,600 in 2007 or 5.44 percent from the prior year. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

**Table 1 - Net Assets**

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current and Other Assets	\$17,920,682	\$18,179,938
Capital Assets	47,419,759	45,764,509
<b>Total Assets</b>	<u>\$65,340,441</u>	<u>\$63,944,447</u>
<b>Liabilities</b>		
Long-Term Liabilities	\$16,790,279	\$17,776,909
Other Liabilities	2,238,562	2,244,880
<b>Total Liabilities</b>	<u>19,028,841</u>	<u>20,021,789</u>
<b>Net Assets</b>		
Invested in Capital Assets Net of Debt	31,634,478	28,804,684
Restricted	9,759,206	10,944,439
Unrestricted	4,917,916	4,173,535
<b>Total Net Assets</b>	<u>\$46,311,600</u>	<u>\$43,922,658</u>

**Table 2 - Change in Net Assets**

	Governmental Activities	
	2007	2006
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 1,236,377	\$ 1,216,349
Operating Grants and Contributions	443,806	429,634
Capital Grants and Contributions	1,132,025	9,546
General Revenues:		
Property Taxes	1,602,215	1,574,293
Municipal Income Taxes	10,327,178	6,464,894
Other Taxes	55,358	1,587
Grants and Entitlements	543,918	1,101,902
Other	433,853	485,443
<b>Total Revenues</b>	<u>15,774,730</u>	<u>11,283,648</u>
<b>Program Expenses</b>		
General Government	2,130,888	1,870,931
Security of Persons and Property	6,020,965	5,468,899
Public Health Services	32,985	27,805
Transportation	584,291	1,062,731
Community Environment	148,297	128,950
Basic Utility Services	2,088,266	2,125,755
Leisure Time Activities	1,641,198	718,628
Interest and Fiscal Charges	738,898	714,723
<b>Total Program Expenses</b>	<u>13,385,788</u>	<u>12,118,422</u>
Increase (Decrease) in Net Assets	2,388,942	(834,774)
Net Assets at Beginning of Year	43,922,658	44,757,432
<b>Net Assets at End of Year</b>	<u>\$ 46,311,600</u>	<u>\$ 43,922,658</u>

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

---

---

Total revenues increased in 2007. This is primarily due to an increase in income tax collections. The City's largest revenue source is income tax. The income tax rate is 2.00 percent on gross income and net profits. This rate has been in effect since January 1, 2007, when the tax was increased by .50 percent by a vote of the residents. 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 Highland Heights. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2007, income tax collected was \$10,327,178. There was a net increase of approximately \$3,900,000 compared to prior year's collections mainly attributable to the increase in the tax rate from 1.50 percent to 2.0 percent effective January 1, 2007. Additionally, the City received increased payments from net profits. The City's second largest revenue source is property taxes. The full voted tax rate for 2007 was 95.90 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of Highland Heights, Mayfield School District, and the Cuyahoga County Library System. During 2007, property tax collected was approximately \$1,602,215. The next largest revenue source is grants and contributions. The City received \$1,132,025 in capital contributions from the Cuyahoga County Engineer's Office for the Wilson Mills Road project.

Total expenses increased in 2007. This is primarily due to increases in the areas of general government, leisure time activities, and security of persons and property are mainly due to personnel costs. Other expenses remained relatively stable compared to prior years. Expenses are categorized by programs. The largest program, security of persons and property, which includes Police, Fire, Police and Fire Communications, and Public Safety, represented 44.98 percent of the governmental expenses, up 10.09 percent from the prior year. The Police Department is made up of 1 chief, 22 full-time sworn officers, 1 part-time, and 7 auxiliary sworn officers, 4 full-time and 3 part-time dispatchers and 3 secretaries. The Fire Department is composed of 1 chief, and 17 full-time and 15 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The next largest programs are General Government, \$2,130,888 and 15.92 percent, Transportation, \$584,291 and 4.37 percent, Leisure Time Activities, \$1,641,198 and 12.26 percent, and Basic Utility Services, \$2,088,266 and 15.60 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration. The City has an annual road program which entails major and minor resurfacing of the various streets in the City. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City has borrowed on the open market by way of general obligation bonds and notes.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

---

---

**THE CITY'S FUNDS**

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

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

As of the end of the current fiscal period, the City's governmental funds reported combined ending fund balances of \$5,928,149. Of this amount, \$5,695,244 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior periods(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,082,988, while the total general fund balance was \$4,253,227. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balance represents 48.0 percent of total general fund expenditures (not including other financing uses), while total general fund balance represents 49.97 percent of the same amount.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The most significant budgeted fund is the general fund. Over the course of the year, the City Council revised the City's general fund budget once to prevent budget overruns.

For the general fund, actual revenue (including other financing sources) was \$10,803,228. This was \$891,601 over the original budgeted revenues of \$9,911,627.

The original appropriation (including other financing uses) of \$9,918,052 was increased to \$10,103,752. Even with these adjustments, the actual charges to appropriations (expenditures) were \$436,854 below the final budgeted amounts for the general fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of 2007, the City had \$47,419,759 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below). This amount represents a net increase (including additions and deductions) of \$1,655,250, or 3.62 percent over last year.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

**Table 3 - Capital Assets at Year-End (Net of Depreciation)**

	<u>2007</u>	<u>2006</u>
Land	\$ 2,870,801	\$ 2,870,801
Construction-in-Progress	6,287	21,246
Buildings	3,148,208	3,326,714
Machinery and Equipment	1,233,690	1,231,337
Furniture and Equipment	34,481	20,403
Vehicles	312,717	381,397
Infrastructure	<u>39,813,575</u>	<u>37,912,611</u>
<b>Total</b>	<u>\$ 47,419,759</u>	<u>\$ 45,764,509</u>

The City continued to purchase equipment in 2007 for various departments, including: \$71,406 for 4 new cruisers in the Police Department, \$26,242 for Fire Department computer system upgrades, \$9,900 for a thermal imaging camera, \$19,757 for new fuel pumps and a fuel management system to be used citywide, \$920,000 in infrastructure in the Community Park mainly dealing with the relocation of roadways and parking areas, and \$751,000 in improvements to the sanitary sewer system in the Colony and Eastlawn Roads area.

The City also continued its road maintenance program by expending \$56,220 for miscellaneous concrete and other road repairs. The City also spent \$30,115 for street striping as well as \$8,300 for miscellaneous drainage projects. Additionally, the City spent \$270,028 in conjunction with the \$3,300,000 Wilson Mills Road improvement project. The balance of the funding was provided by Cuyahoga County.

See Note 9 to the financial statements for more detailed information on capital assets.

**Debt**

The City had \$15,779,220 in outstanding debt at December 31, 2007, compared to \$16,953,439 at December 31, 2006, as shown in Table 4.

**Table 4 - Outstanding Debt at Year-End**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 9,308,837	\$ 9,896,725
Special Assessment Bonds	4,251,162	4,663,274
OPWC Loans	2,217,447	2,389,093
Capital Leases	<u>1,774</u>	<u>4,347</u>
<b>Total</b>	<u>\$ 15,779,220</u>	<u>\$ 16,953,439</u>

The City paid \$587,888 on principal for general obligation bonds, \$412,112 on principal for special assessment bonds, and \$171,646 on principal for OPWC loans. The majority of projects funded through long term debt deal directly with infrastructure improvement. All OPWC loans are at 0 percent interest rate.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(Unaudited)**

---

---

The City's general obligation bond rating continues to carry an AA3 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001 and was reaffirmed on August 7, 2006. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well below the state-imposed limit.

Other obligations include accrued vacation and sick leave, unamortized bond premium, and capital leases. More detailed information about the City's long-term liabilities is presented in Note 13 to the financial statements.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anthony L. Ianiro, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.



*Financial Statements*  
*and Notes to the Financial Statements*  
*for the Year ended December 31, 2007*

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2007**

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Investments	\$ 4,636,237
Materials and Supplies Inventory	59,436
Accrued Interest Receivable	10,281
Accounts Receivable	24,272
Intergovernmental Receivable	429,420
Prepaid Items	104,913
Unamortized Bond Issuance Costs	70,093
Taxes Receivable	4,171,027
Special Assessments Receivable	8,415,003
Nondepreciable Capital Assets	2,877,088
Depreciable Capital Assets, Net	<u>44,542,671</u>
<b>Total Assets</b>	<b><u>65,340,441</u></b>
 <b><u>Liabilities</u></b>	
Accounts Payable	226,115
Accrued Wages	216,979
Intergovernmental Payable	356,542
Matured Compensated Absences Payable	13,431
Accrued Interest Payable	75,751
Deferred Revenue	1,349,744
Long-Term Liabilities:	
Due Within One Year	1,621,666
Due In More Than One Year	<u>15,168,613</u>
<b>Total Liabilities</b>	<b><u>19,028,841</u></b>
 <b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	31,634,478
Restricted for:	
Debt Service	9,005,811
Other Purposes	753,395
Unrestricted	<u>4,917,916</u>
<b>Total Net Assets</b>	<b><u>\$ 46,311,600</u></b>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
<b>Governmental Activities</b>					
Security of Persons and Property	\$ 6,020,965	\$ 435,617	\$ 6,098	\$ 0	\$ (5,579,250)
Public Health Services	32,985	0	0	0	(32,985)
Leisure Time Activities	1,641,198	251,019	0	0	(1,390,179)
Community Environment	148,297	210,410	0	0	62,113
Basic Utility Services	2,088,266	0	0	0	(2,088,266)
Transportation	584,291	241,961	437,708	1,132,025	1,227,403
General Government	2,130,888	97,370	0	0	(2,033,518)
Interest and Fiscal Charges	738,898	0	0	0	(738,898)
<b>Total Governmental Activities</b>	<b>\$13,385,788</b>	<b>\$1,236,377</b>	<b>\$ 443,806</b>	<b>\$ 1,132,025</b>	<b>(10,573,580)</b>
 <b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					881,218
Special Revenue					640,886
Debt Service					80,111
Municipal Income Taxes Levied for:					
General Purposes					9,587,587
Debt Service					739,591
Other Taxes					55,358
Grants and Entitlements not Restricted to Specific Program					543,918
Investment Earnings					287,420
Miscellaneous					146,433
<b>Total General Revenues</b>					<b>12,962,522</b>
Change in Net Assets					2,388,942
Net Assets at Beginning of Year					43,922,658
<b>Net Assets at End of Year</b>					<b>\$ 46,311,600</b>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2007**

	General	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Investments	\$ 2,851,339	\$ 570,947	\$ 24,778	\$ 1,189,173	\$ 4,636,237
Receivables:					
Taxes	3,270,669	0	0	900,358	4,171,027
Accounts	24,272	0	0	0	24,272
Accrued Interest	6,854	0	3,427	0	10,281
Special Assessments	1,625	8,168,902	0	244,476	8,415,003
Intergovernmental	160,108	0	37,117	232,195	429,420
Inventory	14,020	0	0	45,416	59,436
Prepaid Items	104,913	0	0	0	104,913
<b>Total Assets</b>	<b><u>\$ 6,433,800</u></b>	<b><u>\$ 8,739,849</u></b>	<b><u>\$ 65,322</u></b>	<b><u>\$ 2,611,618</u></b>	<b><u>\$ 17,850,589</u></b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 68,240	\$ 0	\$ 34,062	\$ 123,813	\$ 226,115
Accrued Wages and Benefits	216,837	0	0	142	216,979
Matured Compensated Absences Payable	13,431	0	0	0	13,431
Due to Governments	181,796	0	16,552	158,194	356,542
Deferred Revenue	<u>1,700,269</u>	<u>8,168,902</u>	<u>37,117</u>	<u>1,203,085</u>	<u>11,109,373</u>
<b>Total Liabilities</b>	<b><u>2,180,573</u></b>	<b><u>8,168,902</u></b>	<b><u>87,731</u></b>	<b><u>1,485,234</u></b>	<b><u>11,922,440</u></b>
<b>Fund Balances</b>					
Reserved for Inventory	14,020	0	0	45,416	59,436
Reserved for Prepaid Items	104,913	0	0	0	104,913
Reserved for Encumbrances	51,306	0	5,249	12,001	68,556
Unreserved:					
Undesignated, Reported in:					
General Fund	4,082,988	0	0	0	4,082,988
Special Revenue Funds	0	0	0	767,094	767,094
Debt Service Funds	0	570,947	0	267,587	838,534
Capital Projects Funds	<u>0</u>	<u>0</u>	<u>(27,658)</u>	<u>34,286</u>	<u>6,628</u>
<b>Total Fund Balances (Deficits)</b>	<b><u>4,253,227</u></b>	<b><u>570,947</u></b>	<b><u>(22,409)</u></b>	<b><u>1,126,384</u></b>	<b><u>5,928,149</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 6,433,800</u></b>	<b><u>\$ 8,739,849</u></b>	<b><u>\$ 65,322</u></b>	<b><u>\$ 2,611,618</u></b>	<b><u>\$ 17,850,589</u></b>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**DECEMBER 31, 2007**

---

**Total Governmental Funds Balances** \$ 5,928,149

*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. 47,419,759

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

Property Taxes	\$ 212,043	
Grants and Entitlements	349,335	
Income Tax	783,248	
Special Assessments	<u>8,415,003</u>	
Total		9,759,629

Unamortized bond issuance costs. 70,093

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(9,308,837)	
Special Assessment Bonds	(4,251,162)	
OPWC Loans	(2,217,447)	
Capital Leases	(1,774)	
Unamortized Bond Premium	(76,154)	
Compensated Absences	(934,905)	
Accrued Interest Payable	<u>(75,751)</u>	
Total		<u>(16,866,030)</u>

**Net Assets of Governmental Activities** \$ 46,311,600

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Municipal Income Taxes	\$ 9,059,881	\$ 0	\$ 0	\$ 722,553	\$ 9,782,434
Property Taxes	830,443	0	0	679,453	1,509,896
Other Taxes	17,374	0	0	61,848	79,222
Intergovernmental	402,076	0	101,677	466,203	969,956
Special Assessments	11,538	904,412	0	231,057	1,147,007
Charges for Services	333,151	0	0	222,310	555,461
Fines, Licenses, and Permits	423,694	0	0	1,296	424,990
Interest Income	83,195	0	203,546	123	286,864
Miscellaneous	123,342	0	0	19,285	142,627
<b>Total Revenues</b>	<u>11,284,694</u>	<u>904,412</u>	<u>305,223</u>	<u>2,404,128</u>	<u>14,898,457</u>
<b>Expenditures</b>					
Security of Persons and Property	4,949,279	0	12,768	640,332	5,602,379
Public Health Services	32,985	0	0	0	32,985
Leisure Time Activities	7,656	0	0	564,008	571,664
Community Environment	114,711	0	17,157	12,018	143,886
Basic Utility Services	1,436,091	0	0	0	1,436,091
Transportation	0	0	0	832,429	832,429
General Government	1,971,113	8,854	0	0	1,979,967
Capital Outlay	0	0	2,407,424	0	2,407,424
Debt Service:					
Principal Retirement	0	616,496	0	555,150	1,171,646
Interest and Fiscal Charges	0	352,645	0	392,601	745,246
<b>Total Expenditures</b>	<u>8,511,835</u>	<u>977,995</u>	<u>2,437,349</u>	<u>2,996,538</u>	<u>14,923,717</u>
Excess of Revenues Over (Under) Expenditures	<u>2,772,859</u>	<u>(73,583)</u>	<u>(2,132,126)</u>	<u>(592,410)</u>	<u>(25,260)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	815	0	0	0	815
Transfers In	132,204	0	800,000	450,000	1,382,204
Transfers Out	(1,150,000)	0	(50,000)	(182,204)	(1,382,204)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,016,981)</u>	<u>0</u>	<u>750,000</u>	<u>267,796</u>	<u>815</u>
Net Change in Fund Balances	1,755,878	(73,583)	(1,382,126)	(324,614)	(24,445)
Fund Balances at Beginning of Year	2,500,271	644,530	1,359,717	1,457,629	5,962,147
Increase (Decrease) in Reserve for Inventory	(2,922)	0	0	(6,631)	(9,553)
<b>Fund Balances (Deficits) at End of Year</b>	<u>\$ 4,253,227</u>	<u>\$ 570,947</u>	<u>\$ (22,409)</u>	<u>\$ 1,126,384</u>	<u>\$ 5,928,149</u>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND 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, 2007**

---

**Net Change in Fund Balances - Total Governmental Funds** \$ (24,445)

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

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

Capital Additions	\$ 2,379,857	
Capital Contributions	1,132,025	
Current Year Depreciation	<u>(1,772,933)</u>	
Total		1,738,949

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. (83,699)

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

Delinquent Property Tax	92,319	
Grants and Entitlements	32,105	
Income Tax	544,744	
Special Assessments	<u>(891,883)</u>	
Total		(222,715)

Repayment of notes, bonds, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,174,219

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 7,530

Bond premiums will be amortized over the life of the bond on the statement of activities. 4,080

Bond issuance costs are recognized as expenditures in the governmental funds; however, they are amortized over the life of the issuance in the statement of activities. (3,755)

Some expenses reported in the statement of activities, such as compensated absences and changes in inventory, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(191,669)	
Change in Inventory	<u>(9,553)</u>	
Total		<u>(201,222)</u>

**Change in Net Assets of Governmental Activities** \$ 2,388,942

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
<b><u>Revenues</u></b>				
Municipal Income Taxes	\$ 7,848,017	\$ 8,431,695	\$ 8,435,482	\$ 3,787
Property Taxes	842,666	905,337	907,333	1,996
Intergovernmental	370,495	398,050	394,574	(3,476)
Special Assessments	9,308	10,000	11,539	1,539
Charges for Services	245,911	264,200	268,364	4,164
Fines, Licenses, and Permits	386,830	415,600	421,026	5,426
Interest Income	97,731	105,000	105,828	828
Miscellaneous	<u>110,669</u>	<u>118,900</u>	<u>126,063</u>	<u>7,163</u>
<b>Total Revenues</b>	<u>9,911,627</u>	<u>10,648,782</u>	<u>10,670,209</u>	<u>21,427</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	5,039,533	5,118,033	4,922,707	195,326
Public Health Services	31,525	33,525	33,005	520
Leisure Time Activities	38,788	13,788	11,290	2,498
Community Environment	117,533	132,808	116,491	16,317
Basic Utility Services	1,450,636	1,503,236	1,424,662	78,574
General Government	<u>2,090,037</u>	<u>2,152,362</u>	<u>2,008,743</u>	<u>143,619</u>
<b>Total Expenditures</b>	<u>8,768,052</u>	<u>8,953,752</u>	<u>8,516,898</u>	<u>436,854</u>
Excess of Revenues Over (Under) Expenditures	<u>1,143,575</u>	<u>1,695,030</u>	<u>2,153,311</u>	<u>458,281</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sales of Capital Assets	0	0	815	815
Transfers In	0	132,000	132,204	204
Transfers Out	<u>(1,150,000)</u>	<u>(1,150,000)</u>	<u>(1,150,000)</u>	<u>0</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(1,150,000)</u>	<u>(1,018,000)</u>	<u>(1,016,981)</u>	<u>1,019</u>
Net Change in Fund Balance	(6,425)	677,030	1,136,330	459,300
Fund Balance at Beginning of Year	1,611,506	1,611,506	1,611,506	0
Prior Year Encumbrances	<u>26,200</u>	<u>26,200</u>	<u>26,200</u>	<u>0</u>
<b>Fund Balance (Deficit) at End of Year</b>	<u>\$ 1,631,281</u>	<u>\$ 2,314,736</u>	<u>\$ 2,774,036</u>	<u>\$ 459,300</u>

See accompanying notes to the basic financial statements.



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2007**

---

---

	<u>Agency</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Investments	\$ 491,467
<b>Total Assets</b>	<u>\$ 491,467</u>
<b><u>Liabilities</u></b>	
Accounts Payable	\$ 4,090
Deposits Held and Due to Others	<u>487,377</u>
<b>Total Liabilities</b>	<u>\$ 491,467</u>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

---

---

**NOTE 1: REPORTING ENTITY**

The City of Highland Heights, Ohio (the City) was incorporated as a Village in 1920 after it separated from Mayfield Township. In October 1966, the electors of Highland Heights approved a charter that established home rule under a Council-Mayor form of government. In 1969, Highland Heights became a City upon attaining a population of 5,000.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of Highland Heights and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization; **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete; or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The Mayfield City School District is located partially within the City's boundaries, but is excluded from the City's financial statements based on the above criteria. The City has no component units.

The City is associated with three organizations which are defined as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 19 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 15) and a joint venture (Note 18).

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The more significant of the City's accounting policies are described below.

A. **Basis of Presentation**

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

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Fund Accounting**

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

***Governmental Funds***

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract 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 Highland Heights and/or the general laws of Ohio.

Special Assessment Bond Retirement Fund – The special assessment bond retirement fund accounts for special assessments levied to pay principal and interest on debt issued to finance the benefitted property owners' share of the cost of various projects.

Capital Improvement Fund - The capital improvement fund accounts for the accumulation of resources for the acquisition and improvement of the City's capital assets.

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

***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, investments 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 fund. Agency funds are custodial in

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Fund Accounting** (Continued)

***Fiduciary Funds*** (Continued)

nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

**C. Measurement Focus**

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

***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. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**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; 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 the presentation of expense versus expenditures.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Basis of Accounting** (Continued)

***Revenues – Exchange and Nonexchange Transactions*** Revenue resulting from exchange transactions, of which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of 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 year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations are recognized in the fiscal 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, 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, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue. 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.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

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. **Equity in Pooled Cash and Investments**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash balances of all City funds are pooled and invested. 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 Investments. Cash equivalents consist of STAROhio, non-negotiable certificates of deposit (less than three months), Victory Federal Money Market Mutual Fund, and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2007. The allocation of interest earnings from investments to the City's funds is governed by the City Charter. Interest revenue credited to the general fund during 2007 amounted to \$83,195.

During fiscal year 2007, investments were limited to non-negotiable certificates of deposit (greater than three months) and U.S. Government Securities.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**F. Materials and Supplies Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory consists of expendable supplies held for consumption.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, water mains, sanitary sewers, storm sewers, culverts, bridges, and traffic signals. 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 not capitalized.



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Capital Assets** (Continued)

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>Governmental Activities Estimated Lives</u>
Building and Improvement	20 - 40 years
Machinery and Equipment	5 - 20 years
Furniture and Fixtures	15 years
Vehicles	4 - 8 years
Infrastructure	50 years

I. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net assets.

J. **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 year-end, taking into consideration any limits specified in the City's termination policy.

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. **Compensated Absences** (Continued)

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds which the employees who have accumulated the leave are paid.

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

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

L. **Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, and prepaids.

M. **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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

M. **Net Assets** (Continued)

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

N. **Interfund Activity**

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

O. **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 type of transaction occurred during 2007.

P. **Estimates**

The preparation of 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.

Q. **Budgetary Data**

An annual budget is prepared for all funds of the City. The City's budgetary process, which is governed by State law, is described below:

***Tax Budget*** - The City must submit a budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following calendar year.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Q. Budgetary Data** (Continued)

*Estimated Resources* - The County Budget Commission certifies its actions to the City by September 1 and issues a "Certificate of Estimated Resources" limiting the maximum amount the City may appropriate from a given fund during the year.

On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must prepare its appropriations so that the total appropriations from each fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources.

*Appropriations* - A temporary appropriation ordinance may be passed to control expenditures for the period January 1 through March 31. Before April 1, an annual appropriation ordinance must be passed for the period January 1 to December 31. The appropriation ordinance, which controls expenditures at the major object level, may be amended or supplemented by Council during the year as required. The major object level is further defined by grouping level. The administration may move budgeted amounts within each object grouping level. During 2007, there were few significant amendments to the appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

*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 by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges

*Encumbrances* - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. **Budgetary Data** (Continued)

*Lapsing of Appropriations* - At the close of each fiscal 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 forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3: **ACCOUNTABILITY**

**Fund Deficit**

Fund balance at December 31, 2007, included the following individual fund deficits:

**Special Revenue**

Police Pension Fund	\$ 53,078
---------------------	-----------

**Capital Projects**

Capital Improvement Fund	22,409
--------------------------	--------

The deficits in the Police Pension and Capital Improvement funds are due to accrued liabilities. The deficit does not exist under the budgetary basis of accounting. The general fund provides transfers when cash is required, not when accruals occur.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis).

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

- c. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- e. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$ 1,755,878
Increase (Decrease) Due to:	
Revenue Accruals	(614,485)
Expenditure Accruals	71,829
Adjustment for Encumbrances	(76,892)
Budgetary Basis	<u>\$1,136,330</u>

NOTE 5: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2007, the City implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies 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 or 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 provide 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, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

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 (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

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

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. Payments 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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**A. Cash on Hand**

At December 31, 2007, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

**B. Deposits**

At December 31, 2007, the carrying amount of the City's deposits was \$3,452,114, (including \$1,500,000 in certificate of deposits). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2007, \$355,849 of the City's bank balance was covered by Federal Depository Insurance and \$3,320,233 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposit may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve System in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at a Federal Reserve bank in the name of the City.

**C. 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 Investment Pools*, and records all its investments at fair value. At December 31, 2007, fair value was \$617 above the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

**D. Interest Rate Risk**

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

**E. Credit Risk**

The credit risk of the City's investments are in the table below. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

**F. Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**G. Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer. The City's investment in STAROhio represents 9.4 percent of the City's total investments.

Cash and investments at year-end were as follows:

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>	
			<u>&lt;1</u>	<u>1-2</u>
STAROhio	\$ 158,201	AAA	\$ 158,201	\$ 0
Repurchase Agreement-FHLMC	580,000	AAA	580,000	0
FHLB	501,867	AAA	0	501,867
Victory Federal Money Market Fund	434,822	AAA	434,822	0
Total Investments	<u>1,674,890</u>		<u>\$ 1,173,023</u>	<u>\$501,867</u>
Carrying Amount of Deposits	3,452,114			
Petty Cash	<u>700</u>			
Total Cash and Investments	<u>\$ 5,127,704</u>			

\* Credit rating was obtained from Standard & Poor's for all investments.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

**NOTE 7: RECEIVABLES**

Receivables at December 31, 2007, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2007 for real and public property taxes represents collections of 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2007 real property taxes are collected in and intended to finance 2008.

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. 2007 public utility property taxes which became a lien at December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out over future periods. The assessed percentage for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and 0 percent for 2009.

The full tax rate for all City operations for the year ended December 31, 2007, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property - 2007 Tax Valuation	\$ 396,474,220
Public Utility Tangible Property - 2007 Tax Valuation	3,233,350
Tangible Personal Property - 2007 Tax Valuation	<u>35,556,374</u>
Total	<u>\$ 435,263,944</u>

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2007, and for which there is an enforceable legal claim. In the general, police pension, fire pension, parks and recreation, and general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2007 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

Effective January 1, 2007, an income tax of 2.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 100 percent of the City's current tax rate. The allocation of income tax revenue to the City's various funds is determined by City Ordinance.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 7: **RECEIVABLES** (Continued)

**C. Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

At December 31, 2007, special assessments expected to be collected in more than one year amount to \$8,415,003, including delinquent special assessments of \$39,755.

**D. Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and reported in the Bond Retirement Fund.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

**E. Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<b><u>Governmental Activities</u></b>	
Gasoline Tax	\$ 148,252
Local Government	105,537
Homestead and Rollback	80,877
Utility Property Tax Loss Reimbursement	14,467
Auto Registration	35,986
Permissive Tax	5,052
County Engineer (Wilson Mills road Project)	37,117
Other	2,132
<b>Total Governmental Activities</b>	<b>\$ 429,420</b>

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

	Transfer In			
	General	Capital Improvement	Nonmajor Governmental Funds	
Transfer Out				
General	\$ 0	\$ 750,000	\$ 400,000	\$ 1,150,000
Capital Improvement	0	0	50,000	50,000
Nonmajor Governmental Funds	132,204	50,000	0	182,204
Total	<b>\$ 132,204</b>	<b>\$ 800,000</b>	<b>\$ 450,000</b>	<b>\$ 1,382,204</b>

The General Fund transferred \$200,000 to the Police Pension Fund and \$200,000 to the Fire Pension Fund for pension obligation payments. The Park and Recreation Fund transferred \$50,000 to the Capital Improvement Fund to assist with the payments of debt in relation to pool investments, as authorized by City Ordinance. The related debt is paid out of the General Bond Retirement Fund. Therefore, the Capital Improvement Fund transferred \$50,000 to the General Bond Retirement Fund for payment of the pool improvement debt. The General Fund transferred \$750,000 to the Capital Improvement Fund for the purpose of capital improvement purchases. The Aberdeen Business Park Fund was completed in 2006 and the City transferred the outstanding cash balance of \$132,204 back to the General Fund in 2007.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2007 follows:

	Balance <u>12/31/2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/2007</u>
<b><u>Governmental Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land and Land Improvements	\$ 2,870,801	\$ 0	\$ 0	\$ 2,870,801
Construction in Progress	<u>21,246</u>	<u>0</u>	<u>(14,959)</u>	<u>6,287</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,892,047</u>	<u>0</u>	<u>(14,959)</u>	<u>2,877,088</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	6,590,997	0	0	6,590,997
Machinery and Equipment	2,687,340	157,471	(23,833)	2,820,978
Furniture and Fixtures	52,181	16,774	0	68,955
Vehicles	1,471,564	138,935	(93,070)	1,517,429
Infrastructure	<u>59,050,495</u>	<u>3,213,661</u>	<u>(146,146)</u>	<u>62,118,010</u>
Totals at Historical Cost	<u>69,852,577</u>	<u>3,526,841</u>	<u>(263,049)</u>	<u>73,116,369</u>
Less Accumulated Depreciation:				
Buildings	(3,264,283)	(178,506)	0	(3,442,789)
Machinery and Equipment	(1,456,003)	(155,118)	23,833	(1,587,288)
Furniture and Equipment	(31,778)	(2,696)	0	(34,474)
Vehicles	(1,090,167)	(193,491)	78,946	(1,204,712)
Infrastructure	<u>(21,137,884)</u>	<u>(1,243,122)</u>	<u>76,571</u>	<u>(22,304,435)</u>
Total Accumulated Depreciation	<u>(26,980,115)</u>	<u>(1,772,933)</u>	<u>179,350</u>	<u>(28,573,698)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>42,872,462</u>	<u>1,753,908</u>	<u>(83,699)</u>	<u>44,542,671</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 45,764,509</u>	<u>\$ 1,753,908</u>	<u>\$ (98,658)</u>	<u>\$ 47,419,759</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 57,825
Security of Persons and Property	250,217
Basic Utilities	817,382
Community Environment	1,125
Leisure Time Activities	102,783
Transportation	<u>543,501</u>
<b>Total Depreciation Expense</b>	<u>\$ 1,772,933</u>

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

**NOTE 10: COMPENSATED ABSENCES**

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be accumulated by each employee, with the exception of firemen, which can accumulate 1,345 hours.

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy does not permit vacation leave to be carried forward unless authorized by the Mayor or department head. City employees are paid for earned unused vacation leave at the time of termination of employment.

**NOTE 11: DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

All City full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a benefit contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent 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 (CO) - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension 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, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377 or by using the OPERS website at [www.opers.org](http://www.opers.org).



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 8.85 percent of covered payroll from January 1 to June 30, 2007, and 7.85 from July 1 to December 31, 2007. The City's required contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were \$311,967, \$285,145, and \$292,910, respectively. The full amount has been contributed for 2007, 2006, and 2005. Contributions to the Member-Directed Plan for 2007 were \$4,105 made by the City and \$2,647 made by the plan members.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The 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. The 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police officers and 24.00 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$317,093 and \$299,481 for the year ended December 31, 2007, \$306,624 and \$284,848 for the year ended December 31, 2006, and \$298,144 and \$284,710 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 76.50 percent and 75.00 percent, respectively, have been contributed for 2007.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

**NOTE 12: POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 employer rate was 13.85 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for State and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 5.00 percent from January 1 through June 30, 2007, and 6.00 percent from July 1 through December 31, 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 5 percent annually for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

As of December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined plans totaled 374,979. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130. Actual City contributions for 2007 which were used to fund post-employment benefits were \$112,623. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2006 (the latest information available) was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow the benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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

The City 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 the 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.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

**B. Ohio Police and Fire Pension Fund** (Continued)

OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Health care funding and accounting is on a pay-as-you-go basis.

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

The Ohio Revised Code provides for contributions requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account 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 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2007, the employer contribution allocated to the 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 also is limited by the provisions of Section 401(h).

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

**B. Ohio Police and Fire Pension Fund** (Continued)

In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, the date of the last actuarial valuation was 14,120 for police and 10,563 for firefighters.

The City's actual contributions for 2007 that were used to fund post-employment health care benefits were \$126,024 for police and \$96,707 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2006 (the latest information available) was \$120,373,722, which was net of member contributions of \$58,532,848.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

**NOTE 13: LONG-TERM OBLIGATIONS**

Changes in the debt of the City for the year ended December 31, 2007, are as follows:

	Principal Outstanding 12/31/2006	Additions	Deletions	Principal Outstanding 12/31/2007	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
<b><u>General Obligation Bonds</u></b>					
1992 \$1,440,000 Various Purpose Improvement Bonds, 4.0-6.2%	\$ 475,000	\$ 0	\$ (75,000)	\$ 400,000	\$ 75,000
1997 \$6,495,000 Various Purpose Improvement Bonds, 3.75-5.25%	4,280,000	0	(295,000)	3,985,000	265,000
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	136,725	0	(7,888)	128,837	7,888
2001 \$4,065,000 Various Purpose Improvement Bonds, 3.0-4.8%	3,295,000	0	(170,000)	3,125,000	180,000
2006 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	<u>1,710,000</u>	<u>0</u>	<u>(40,000)</u>	<u>1,670,000</u>	<u>60,000</u>
<b>Total General Obligation Bonds</b>	<u>9,896,725</u>	<u>0</u>	<u>(587,888)</u>	<u>9,308,837</u>	<u>587,888</u>
<b><u>Special Assessment Bonds (a)</u></b>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	643,274	0	(37,112)	606,162	37,112
1999 \$1,280,000 Refunding of Special Assessment (Whiteford and Alpha), 5.2-6.5%	350,000	0	(165,000)	185,000	185,000
1999 \$4,460,000 Street Improvement (Aberdeen Blvd.) Bonds, 4.1-5.7%	3,540,000	0	(180,000)	3,360,000	190,000
1990 \$380,000 Street Improvement (Bishop Rd.) Bonds, 7.357%	<u>130,000</u>	<u>0</u>	<u>(30,000)</u>	<u>100,000</u>	<u>30,000</u>
<b>Total Special Assessment Bonds</b>	<u>4,663,274</u>	<u>0</u>	<u>(412,112)</u>	<u>4,251,162</u>	<u>442,112</u>
<b><u>Ohio Public Works Commission</u></b>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	1,107,424	0	(82,031)	1,025,393	82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewer, 0%	672,216	0	(48,016)	624,200	48,016
1998 \$145,238 Millridge Water Main Replacement, 0%	94,404	0	(7,262)	87,142	7,262
1999 \$686,733 Sanitary Sewers Selected Locations, 0%	<u>515,049</u>	<u>0</u>	<u>(34,337)</u>	<u>480,712</u>	<u>34,337</u>
<b>Total Ohio Public Works Commission</b>	<u>2,389,093</u>	<u>0</u>	<u>(171,646)</u>	<u>2,217,447</u>	<u>171,646</u>
<b><u>Capital Lease</u></b>					
2002 Canon Copier	<u>4,347</u>	<u>0</u>	<u>(2,573)</u>	<u>1,774</u>	<u>1,774</u>
<b>Total Capital Lease</b>	<u>4,347</u>	<u>0</u>	<u>(2,573)</u>	<u>1,774</u>	<u>1,774</u>
<b>Unamortized Bond Premium</b>	<u>80,234</u>	<u>0</u>	<u>(4,080)</u>	<u>76,154</u>	<u>0</u>
<b>Compensated Absences</b>	<u>743,236</u>	<u>561,856</u>	<u>(370,187)</u>	<u>934,905</u>	<u>418,246</u>
<b>Total Governmental Long-Term Obligations</b>	<u>\$ 17,776,909</u>	<u>\$ 561,856</u>	<u>\$(1,548,486)</u>	<u>\$16,790,279</u>	<u>\$ 1,621,666</u>

- (a) Includes only the portion of the bonds expected to be paid from special assessments. The remaining portion (City's share) of the bonds is to be paid from general City revenues and is included under the "General Obligation Bonds" caption.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

The 1992 bonds were issued to improve the municipal sewerage system by constructing storm sewers and culverts. The 1997 bonds were a consolidated issue for the construction and improvement of streets, sewer systems, water mains and storm water retention facilities, and the acquisition of a pumper truck. The 1999 bonds were for the City's portion of the improvement of Alpha Street. The 2001 bonds were issued for the improvement of streets, acquiring and installing communications equipment for the Dispatch Center, and installing a roof on the City's municipal complex. The 2006 bonds were issued for the construction of Aberdeen Business Park.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond retirement fund.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment bond retirement fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The Ohio Public Works Commission (OPWC) loans will be paid by revenues transferred from the general fund. See Note 14 for further details on capital leases. Compensated absences will be paid from the General Fund, the Street Construction, Maintenance, and Repair Fund, and the Parks and Recreation Fund.

**Legal Debt Margin**

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2007, the City's overall debt margin was \$36,126,290 with an unvoted debt margin of \$14,363,093.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2007, from the general resources of the City are as follows:

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

**Legal Debt Margin** (Continued)

<u>Year</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>OPWC Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 587,888	\$ 445,432	\$ 442,112	\$ 231,716	\$ 171,646	\$ 0
2009	617,888	419,225	267,112	207,882	171,645	0
2010	643,765	391,275	281,235	193,139	171,645	0
2011	679,641	361,797	260,359	178,061	171,645	0
2012	709,641	329,778	275,359	164,584	171,645	0
2013-2017	3,562,844	1,157,108	1,607,155	585,892	858,225	0
2018-2022	1,852,170	415,339	1,117,830	124,771	500,996	0
2023-2027	655,000	75,663	0	0	0	0
Totals	<u>\$ 9,308,837</u>	<u>\$3,595,617</u>	<u>\$4,251,162</u>	<u>\$1,686,045</u>	<u>\$2,217,447</u>	<u>\$ 0</u>

	<u>Capital Lease</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,774	\$ 76	\$ 1,203,420	\$ 677,224
2009	0	0	1,056,645	627,107
2010	0	0	1,096,645	584,414
2011	0	0	1,111,645	539,858
2012	0	0	1,156,645	494,362
2013-2017	0	0	6,028,224	1,743,000
2018-2022	0	0	3,470,996	540,110
2023-2027	0	0	655,000	75,663
Totals	<u>\$ 1,774</u>	<u>\$ 76</u>	<u>\$15,779,220</u>	<u>\$ 5,281,738</u>

NOTE 14: **CAPITAL LEASES**

The City entered into an agreement with Lake Business Products, Inc. in June 2003 to lease one Canon digital copier in the amount of \$12,217. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date as capital assets and long-term debt.

The cost and accumulated depreciation of the assets acquired through capital leases are as follows:

<u>Governmental Activities</u>	<u>Canon Copier</u>
Asset:	
Equipment	\$ 12,217
Less: Accumulated Depreciation	<u>(11,198)</u>
Net Value	<u>\$ 1,019</u>



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

NOTE 14: **CAPITAL LEASES** (Continued)

The future minimum lease obligation and the net present value of these capital leases as of December 31, 2007 are as follows:

<u>Governmental Activities</u>	<u>Canon</u>
Future Minimum Lease Obligation	Copier
Less: Interest	\$ 1,850
Net Present Value	<u>(76)</u>
	<u>\$ 1,774</u>

NOTE 15: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION**

The Northern Ohio Risk Management Association is a shared risk pool comprised of the cities of Bedford Heights, Highland Heights, Mayfield Heights, Richmond Heights, South Euclid, Eastlake, Solon, Maple Heights, Hudson, and the village of Chagrin Falls for the purpose of enabling its members to obtain property and liability insurance, including vehicle, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a Board of Trustees that consists of the mayor from each of the participating members. Each entity must remain a member for at least three years from its initial entry date. After the initial three years, each City may extend its term by an additional three years.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2007, the City of Highland Heights paid \$64,354 in premiums from the general fund, which represents 4.99 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio, 44146.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

**NOTE 16: RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among general fund departments and other funds in proportion to the protection provided for the assets in those general fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the general fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical and prescription benefits are provided through Medical Mutual of Ohio and dental benefits are provided through Assurant. Payments are made from the general fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits is \$461.15 for single coverage and \$1,152.17 for family coverage. The monthly premium for dental benefits is \$36.13 for single coverage and \$108.71 for family coverage.

**NOTE 17: CONTINGENT LIABILITIES**

The City is a defendant in a number of lawsuits. City management, after consultation with the City's Director of Law, is of the opinion that the ultimate disposition of such lawsuits will not result in a material adverse effect on the City's financial position.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 18: **JOINT VENTURE**

**Tri-City Consortium on Aging Council of Governments**

The Tri-City Consortium on Aging (Consortium) is a joint venture among the cities of Highland Heights, Lyndhurst, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member cities and Federal grants. The governing board of the Consortium is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, and South Euclid, with the advice of a nine-member commission. Continued existence of the Consortium is dependent on the City; however, the City has no explicit and measurable equity interest in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2007, the City contributed \$77,549, which represents 17.2 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

NOTE 19: **JOINTLY GOVERNED ORGANIZATION**

**Eastern Suburban Regional Council of Governments**

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all participating members.

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2007, the City contributed \$14,000, which represents 16.7 percent of the total contributions.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(CONTINUED)**

---

---

NOTE 19: **JOINTLY GOVERNED ORGANIZATION** (Continued)

**Northeast Ohio Public Energy Council**

The City is a member of the Northeast Ohio Public Energy Council (“NOPEC”). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide electricity 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 eight-member NOPEC Board of Directors. The Board of Directors 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 of Directors. The City did not contribute to NOPEC in 2007. Financial information can be obtained by contacting NOPEC at 583 East Aurora Road, Macedonia, Ohio 44056.

**Mayfield Union Cemetery**

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

*Financial Statements and  
Notes to the Financial Statements  
for the Year ended December 31, 2006*

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

---

---

The discussion and analysis of the City of Highland Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2006. 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 INFORMATION**

Key financial highlights for 2006 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$43,922,658. Of this amount, \$4,173,535 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets decreased by \$834,774 from the prior year.
- Total liabilities decreased by \$1,048,759 from prior year.
- The unreserved fund balance for the general fund was \$2,359,388, or 29.5 percent of the total general fund expenditures (not including other financing uses).

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: **1)** government-wide statements; **2)** fund financial statements; and **3)** notes to the financial statements.

**Government-Wide Statements**

The government-wide statements are designed to provide readers with a broad overview of the City of Highland Heights's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets presents information on all of the City's 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 is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utilities, community environment, leisure time activities, and public health services. There are no business-type activities reported for the City.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

---

---

***Fund Financial Statements***

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily 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. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in the financial statements.

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

***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**THE CITY AS A WHOLE**

***Government-Wide Financial Analysis***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets slightly decreased from a year ago - decreasing from \$44,757,432 in 2005 to \$43,922,658 in 2006 or 1.86 percent from the prior year. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

**Table 1 - Net Assets**

	Governmental Activities	
	2006	2005*
<b>Assets</b>		
Current and Other Assets	\$ 18,179,938	\$18,977,474
Capital Assets	45,764,509	46,850,506
<b>Total Assets</b>	<b>\$ 63,944,447</b>	<b>\$65,827,980</b>
<b>Liabilities</b>		
Long-Term Liabilities	\$ 17,776,909	\$17,274,854
Other Liabilities	2,244,880	3,795,694
<b>Total Liabilities</b>	<b>20,021,789</b>	<b>21,070,548</b>
<b>Net Assets</b>		
Invested in Capital Assets Net of Debt	28,804,684	29,654,382
Restricted	10,944,439	11,941,418
Unrestricted	4,173,535	3,161,632
<b>Total Net Assets</b>	<b>\$ 43,922,658</b>	<b>\$44,757,432</b>

\*Restated as of December 31, 2005

**Table 2 - Change in Net Assets**

	Governmental Activities	
	2006	2005*
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 1,216,349	\$ 1,179,782
Operating Grants and Contributions	429,634	507,412
Capital Grants and Contributions	9,546	1,810,126
General Revenues:		
Property Taxes	1,574,293	1,513,174
Income Taxes	6,464,894	5,944,532
Other Taxes	1,587	14,791
Grants and Entitlements	1,101,902	537,438
Other	485,443	418,063
<b>Total Revenues</b>	<b>11,283,648</b>	<b>11,925,318</b>
<b>Program Expenses</b>		
General Government	1,870,931	2,090,468
Security of Persons and Property	5,468,899	5,111,043
Public Health Services	27,805	0
Transportation	1,062,731	1,208,305
Community Environment	128,950	276,515
Basic Utility Services	2,125,755	1,728,290
Leisure Time Activities	718,628	688,224
Interest and Fiscal Charges	714,723	724,116
<b>Total Program Expenses</b>	<b>12,118,422</b>	<b>11,826,961</b>
Increase (Decrease) in Net Assets	(834,774)	98,357
Net Assets at Beginning of Year	44,757,432	44,659,075
<b>Net Assets at End of Year</b>	<b>\$ 43,922,658</b>	<b>\$ 44,757,432</b>

\*Restated as of December 31, 2005



**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

---

---

Total revenues decreased slightly in 2006. This is primarily due to a decrease in the amount of completed infrastructure from developments. The City's largest revenue source is income tax. The City's income tax rate is 1.50 percent on gross income and net profits. This rate has been in effect since 1981 when the tax was increased by .50 percent by a vote of the residents. 25 years later, in November of 2006, the voters were asked to increase the income tax rate from 1.50 percent to 2.00 percent. The issue was approved by the residents of the City and the 2.00 percent income tax rate will become effective on January 1, 2007. This .50 percent increase is expected to generate approximately an additional \$1.7 million dollars annually. The City plans to utilize the additional funds to stabilize the General Fund as well as continuing and improving on capital equipment and projects. 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 Highland Heights. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2006 the income tax collected was \$6,464,894. There was a net increase of about \$520,000 compared to prior year's collections mainly attributable to employer withholding and the estimate of taxes receivable. The second largest revenue source is property taxes. The full voted tax rate for 2006 was 95.90 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of Highland Heights, Mayfield School District, and Cuyahoga County Library System. During 2006 the property tax collected was approximately \$1.57 million.

Total expenses increased in 2006. This is primarily due to increases in the areas of basic utility services and security to persons and property mainly due to personnel costs. Other expenses remained relatively stable compared to prior years. Expenses are categorized by programs. The largest program, security of persons and property which includes Police, Fire, Police and Fire Communications, and Public Safety represented 45.13 percent of the governmental expenses, up 7.0 percent from the prior year. The Police Department is made up of 1 chief, 22 full-time sworn officers, 1 part-time, and 7 auxiliary sworn officers, 4 full-time and 3 part-time dispatchers and 3 secretaries. The Fire Department is composed of 1 chief, and 17 full-time and 15 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The next largest programs are General Government, \$1,870,931 and 15.44 percent, and Basic Utility Services, \$2,125,755 and 17.54 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration. The City has an annual road program which entails major and minor resurfacing of the various streets in the City. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City has borrowed on the open market by way of general obligation bonds and notes.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

---

---

**THE CITY'S FUNDS**

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

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

As of the end of the current fiscal period, the City's governmental funds reported combined ending fund balances of \$5,962,147. Of this amount, \$5,669,808 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior periods(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,359,388, while the total general fund balance was \$2,500,271. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balance represents 29.5 percent of total general fund expenditures (not including other financing uses), while total general fund balance represents 31.25 percent of the same amount.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The most significant budgeted fund is the general fund. Over the course of the year, the City Council revised the City's general fund budget once to prevent budget overruns.

For the general fund, actual revenue (including other financing sources) was \$7,914,580. This was \$28,770 over the final budgeted revenues of \$7,885,810.

The original appropriation (including other financing uses) of \$8,461,613 was increased to \$8,562,418. Even with these adjustments, the actual charges to appropriations (expenditures) were \$133,870 below the final budgeted amounts for the general fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of 2006, the City had \$45,764,509 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below). This amount represents a net decrease (including additions and deductions) of approximately \$1,085,997 million, or 2.32 percent under last year.

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

**Table 3 - Capital Assets at Year-End (Net of Depreciation)**

	2006	2005
Land	\$ 2,870,801	\$ 2,870,801
Construction-in-Progress	21,246	21,246
Buildings	3,326,714	3,511,031
Machinery and Equipment	1,231,337	1,057,768
Furniture and Equipment	20,403	22,230
Vehicles	381,397	273,755
Infrastructure:		
Roads	11,418,311	11,789,400
Water Mains	6,735,895	6,961,780
Storm Sewers	10,634,122	10,954,483
Sanitary Sewers	8,748,207	9,001,497
Culverts	147,561	151,988
Traffic Signals	37,952	39,633
Bridges	190,563	194,894
<b>Total</b>	<b>\$ 45,764,509</b>	<b>\$ 46,850,506</b>

The City continued to purchase equipment in 2006 for various departments, including: \$59,870 for 3 new cruisers in the police department; \$80,323 for a front-end loader; \$19,713 for a pick-up truck; \$34,650 for a 25 yard leaf loader and \$50,487 for a 5 ton dump truck with plow equipment in the service department; \$150,000 for a previously owned ladder truck in the fire department; and \$189,961 for a new playground in the municipal park.

The City also continued its road maintenance program by expending \$80,100 for miscellaneous concrete and other road repairs. The City also spent \$33,352 for street striping as well as \$29,000 for miscellaneous drainage projects.

See Note 9 to the financial statements for more detailed information on capital assets.

***Debt***

The City had \$16,953,439 in outstanding debt at December 31, 2006 compared to \$17,955,261 at December 31, 2005, as shown in Table 4.

**Table 4 - Outstanding Debt at Year-End**

	Governmental Activities	
	2006	2005
General Obligation Bonds	\$ 9,896,725	\$ 8,708,737
Special Assessment Bonds	4,663,274	5,046,262
Notes	0	1,600,000
OPWC Loans	2,389,093	2,560,739
Capital Lease	4,347	39,523
<b>Total</b>	<b>\$ 16,953,439</b>	<b>\$ 17,955,261</b>

**CITY OF HIGHLAND HEIGHTS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)**

---

---

The City paid \$522,012 on principal for general obligation bonds, \$382,988 on principal for special assessment bonds, \$171,646 on principal for OPWC loans and \$1.6 million on short term notes. The majority of projects funded through long term debt deal directly with infrastructure improvement. All OPWC loans are at 0 percent interest rate. New general obligation bonds were issued for improvements to the Aberdeen Business Park in the amount of \$1,710,000.

The City's general obligation bond rating continues to carry an AA3 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well below the state-imposed limit.

Other obligations include accrued vacation and sick leave, unamortized bond premium, and capital leases. More detailed information about the City's long-term liabilities is presented in Notes 14 and 15 to the financial statements.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anthony L. Ianiro, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Investments	\$ 5,049,991
Materials and Supplies Inventory	68,989
Accrued Interest Receivable	26,888
Accounts Receivable	23,731
Intergovernmental Receivable	454,629
Prepaid Items	112,246
Unamortized Bond Issuance Costs	73,848
Taxes Receivable	3,062,730
Special Assessments Receivable	9,306,886
Nondepreciable Capital Assets	2,892,047
Depreciable Capital Assets, Net	<u>42,872,462</u>
<b>Total Assets</b>	<b><u>63,944,447</u></b>
 <b><u>Liabilities</u></b>	
Accounts Payable	134,224
Accrued Wages	140,068
Due to Governments	342,213
Accrued Interest Payable	83,281
Deferred Revenue	1,545,094
Long-Term Liabilities:	
Due Within One Year	1,544,406
Due In More Than One Year	<u>16,232,503</u>
<b>Total Liabilities</b>	<b><u>20,021,789</u></b>
 <b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	28,804,684
Restricted for:	
Capital Projects	132,204
Debt Service	10,011,994
Other Purposes	800,241
Unrestricted	<u>4,173,535</u>
<b>Total Net Assets</b>	<b><u>\$43,922,658</u></b>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
<b><u>Governmental Activities</u></b>					
Security of Persons and Property	\$ 5,468,899	\$ 434,228	\$ 10,360	\$ 0	\$ (5,024,311)
Public Health	27,805	0	0	0	(27,805)
Leisure Time Activities	718,628	256,407	0	0	(462,221)
Community Environment	128,950	209,041	0	9,546	89,637
Basic Utility Services	2,125,755	2,036	0	0	(2,123,719)
Transportation	1,062,731	236,547	419,274	0	(406,910)
General Government	1,870,931	78,090	0	0	(1,792,841)
Interest and Fiscal Charges	<u>714,723</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(714,723)</u>
<b>Total Governmental Activities</b>	<b><u>\$12,118,422</u></b>	<b><u>\$1,216,349</u></b>	<b><u>\$ 429,634</u></b>	<b><u>\$ 9,546</u></b>	<b><u>(10,462,893)</u></b>

**General Revenues**

Property Taxes Levied for:

General Purposes	840,445
Special Revenue	611,232
Debt Service	122,616

Municipal Income Taxes Levied for:

General Purposes	5,818,405
Debt Service	646,489
Other Taxes	1,587

Grants and Entitlements not Restricted to Special Programs 1,101,902

Investment Earnings 357,511

Miscellaneous 127,932

**Total General Revenues** 9,628,119

Change in Net Assets (834,774)

Net Assets at Beginning of Year, as Restated 44,757,432

**Net Assets at End of Year** \$ 43,922,658

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2006**

	General	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Investments	\$ 1,649,679	\$ 225,518	\$ 644,530	\$ 2,530,264	\$ 5,049,991
Receivables:					
Taxes	2,173,772	223,032	0	665,926	3,062,730
Accounts	22,647	1,084	0	0	23,731
Accrued Interest	17,925	0	0	8,963	26,888
Special Assessments	11,389	0	9,073,314	222,183	9,306,886
Intergovernmental	167,539	5,031	0	282,059	454,629
Inventory	16,942	0	0	52,047	68,989
Prepaid Items	112,246	0	0	0	112,246
<b>Total Assets</b>	<b><u>\$ 4,172,139</u></b>	<b><u>\$ 454,665</u></b>	<b><u>\$9,717,844</u></b>	<b><u>\$ 3,761,442</u></b>	<b><u>\$ 18,106,090</u></b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 74,886	\$ 0	\$ 0	\$ 59,338	\$ 134,224
Accrued Wages and Benefits	140,068	0	0	0	140,068
Due to Governments	200,854	0	0	141,359	342,213
Deferred Revenue	<u>1,256,060</u>	<u>129,978</u>	<u>9,073,314</u>	<u>1,068,086</u>	<u>11,527,438</u>
<b>Total Liabilities</b>	<b><u>1,671,868</u></b>	<b><u>129,978</u></b>	<b><u>9,073,314</u></b>	<b><u>1,268,783</u></b>	<b><u>12,143,943</u></b>
<b>Fund Balances</b>					
Reserved for Inventory	16,942	0	0	52,047	68,989
Reserved for Prepaid Items	112,246	0	0	0	112,246
Reserved for Encumbrances	11,695	0	0	99,409	111,104
Unreserved:					
Undesignated, Reported in:					
General Fund	2,359,388	0	0	0	2,359,388
Special Revenue Funds	0	0	0	875,722	875,722
Debt Service Funds	0	324,687	644,530	0	969,217
Capital Projects Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,465,481</u>	<u>1,465,481</u>
<b>Total Fund Balances</b>	<b><u>2,500,271</u></b>	<b><u>324,687</u></b>	<b><u>644,530</u></b>	<b><u>2,492,659</u></b>	<b><u>5,962,147</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 4,172,139</u></b>	<b><u>\$ 454,665</u></b>	<b><u>\$ 9,717,844</u></b>	<b><u>\$ 3,761,442</u></b>	<b><u>\$ 18,106,090</u></b>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**DECEMBER 31, 2006**

---

**Total Governmental Funds Balances** \$ 5,962,147

*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. 45,764,509

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

Property Taxes	\$ 119,724	
Grants and Entitlements	317,230	
Income Tax	238,504	
Special Assessments	<u>9,306,886</u>	
Total		9,982,344

Unamortized Bond Issuance Costs 73,848

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(9,896,725)	
Special Assessment Bonds	(4,663,274)	
OPWC Loans	(2,389,093)	
Capital Leases	(4,347)	
Unamortized Bond Premium	(80,234)	
Compensated Absences	(743,236)	
Accrued Interest Payable	<u>(83,281)</u>	
Total		<u>(17,860,190)</u>

**Net Assets of Governmental Activities** \$43,922,658



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Municipal Income Taxes	\$ 5,770,767	\$ 621,357	\$ 0	\$ 0	\$ 6,392,124
Property Taxes	810,940	119,934	0	589,775	1,520,649
Other Taxes	0	2,368	0	0	2,368
Intergovernmental	370,387	10,062	0	1,114,750	1,495,199
Special Assessments	10,361	0	821,160	224,854	1,056,375
Charges for Services	313,135	0	0	232,062	545,197
Fines, Licenses, and Permits	439,129	0	0	1,487	440,616
Interest Income	120,548	0	0	220,106	340,654
Miscellaneous	134,176	8,238	0	4,547	146,961
<b>Total Revenues</b>	<u>7,969,443</u>	<u>761,959</u>	<u>821,160</u>	<u>2,387,581</u>	<u>11,940,143</u>
<b>Expenditures</b>					
Security of Persons and Property	4,727,314	0	0	610,284	5,337,598
Public Health Services	27,805	0	0	0	27,805
Leisure Time Activities	40,449	0	0	580,522	620,971
Community Environment	109,411	0	0	32,725	142,136
Basic Utilities Services	1,288,625	0	0	31,931	1,320,556
Transportation	0	0	0	630,506	630,506
General Government	1,807,395	0	8,068	985	1,816,448
Capital Outlay	0	0	0	625,458	625,458
Debt Service:					
Principal Retirement	0	461,736	614,910	0	1,076,646
Interest and Fiscal Charges	0	416,790	329,083	0	745,873
<b>Total Expenditures</b>	<u>8,000,999</u>	<u>878,526</u>	<u>952,061</u>	<u>2,512,411</u>	<u>12,343,997</u>
Excess of Revenues Over (Under) Expenditures	<u>(31,556)</u>	<u>(116,567)</u>	<u>(130,901)</u>	<u>(124,830)</u>	<u>(403,854)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	8,966	0	0	0	8,966
Proceeds from Sale of Bonds	54,000	1,656,000	0	0	1,710,000
Premium on Bonds	0	0	81,594	0	81,594
Bond Issuance Costs	0	0	(75,100)	0	(75,100)
Transfers In	0	50,000	0	2,030,000	2,080,000
Transfers Out	(380,000)	(1,600,000)	0	(100,000)	(2,080,000)
<b>Total Other Financing Sources (Uses)</b>	<u>(317,034)</u>	<u>106,000</u>	<u>6,494</u>	<u>1,930,000</u>	<u>1,725,460</u>
Net Change in Fund Balances	<u>(348,590)</u>	<u>(10,567)</u>	<u>(124,407)</u>	<u>1,805,170</u>	<u>1,321,606</u>
Fund Balances at Beginning of Year, as Restated	2,849,502	335,254	768,937	676,855	4,630,548
Increase (Decrease) in Reserve for Inventory	(641)	0	0	10,634	9,993
<b>Fund Balances at End of Year</b>	<u>\$ 2,500,271</u>	<u>\$ 324,687</u>	<u>\$ 644,530</u>	<u>\$ 2,492,659</u>	<u>\$ 5,962,147</u>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND 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, 2006**

---

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,321,606

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

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

Capital Additions	\$ 625,458	
Current Year Depreciation	<u>(1,659,701)</u>	
Total		(1,034,243)

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (51,754)

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

Delinquent Property Tax	53,644	
Grants and Entitlements	24,111	
Income Tax	72,770	
Special Assessments	<u>(799,920)</u>	
Total		(649,395)

Repayment of bonds and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,111,822

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. (2,774)

Bond premiums will be amortized over the life of the bond on the statement of activities. (80,234)

Bond issuance costs are recognized as expenditures in the governmental funds; however, they are amortized over the life of the issuance in the statement of activities. 73,848

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (1,710,000)

Some expenses reported in the statement of activities, such as compensated absences and changes in inventory do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	176,357	
Change in Inventory	<u>9,993</u>	
Total		<u>186,350</u>

**Change in Net Assets of Governmental Activities** \$ (834,774)

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Municipal Income Taxes	\$ 5,763,849	\$ 5,763,850	\$ 5,670,449	\$ (93,401)
Property Taxes	869,196	869,196	898,820	29,624
Intergovernmental	347,200	347,200	359,068	11,868
Special Assessments	7,000	7,000	10,361	3,361
Charges for Services	263,100	263,100	252,224	(10,876)
Fines, Licenses, and Permits	447,600	447,600	438,442	(9,158)
Interest Income	75,000	75,000	105,951	30,951
Miscellaneous	<u>112,865</u>	<u>112,864</u>	<u>116,299</u>	<u>3,435</u>
<b>Total Revenues</b>	<u>7,885,810</u>	<u>7,885,810</u>	<u>7,851,614</u>	<u>(34,196)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	4,712,146	4,742,321	4,743,191	(870)
Public Health Services	27,575	27,825	27,805	20
Leisure Time Activities	36,730	44,430	41,841	2,589
Community Environment	106,281	113,831	105,891	7,940
Basic Utility Services	1,403,999	1,383,499	1,317,975	65,524
General Government	<u>1,794,882</u>	<u>1,870,512</u>	<u>1,811,845</u>	<u>58,667</u>
<b>Total Expenditures</b>	<u>8,081,613</u>	<u>8,182,418</u>	<u>8,048,548</u>	<u>133,870</u>
Excess of Revenues Over (Under) Expenditures	<u>(195,803)</u>	<u>(296,608)</u>	<u>(196,934)</u>	<u>99,674</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Proceeds from Sale of Bonds	0	0	54,000	54,000
Sales of Capital Assets	0	0	8,966	8,966
Transfers Out	<u>(380,000)</u>	<u>(380,000)</u>	<u>(380,000)</u>	<u>0</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(380,000)</u>	<u>(380,000)</u>	<u>(317,034)</u>	<u>62,966</u>
Net Change in Fund Balance	(575,803)	(676,608)	(513,968)	162,640
Fund Balance at Beginning of Year	<u>2,125,474</u>	<u>2,125,474</u>	<u>2,125,474</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 1,549,671</u>	<u>\$ 1,448,866</u>	<u>\$ 1,611,506</u>	<u>\$ 162,640</u>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2006**

---

---

	<u>Agency</u>
<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Investments	\$ 514,233
<b>Total Assets</b>	<u>\$ 514,233</u>
<b><u>Liabilities</u></b>	
Accounts Payable	\$ 1,585
Deposits Held and Due to Others	<u>512,648</u>
<b>Total Liabilities</b>	<u>\$ 514,233</u>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

---

---

**NOTE 1: REPORTING ENTITY**

The City of Highland Heights, Ohio (the City) was incorporated as a Village in 1920 after it separated from Mayfield Township. In October 1966, the electors of Highland Heights approved a charter that established home rule under a Council-Mayor form of government. In 1969, Highland Heights became a City upon attaining a population of 5,000.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of Highland Heights and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization; **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete; or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The Mayfield City School District is located partially within the City's boundaries, but is excluded from the City's financial statements based on the above criteria. The City has no component units.

The City is associated with three organizations which are defined as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 20 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 16) and a joint venture (Note 19).

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The more significant of the City's accounting policies are described below.

A. **Basis of Presentation**

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

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Fund Accounting**

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

***Governmental Funds***

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract 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 Highland Heights and/or the general laws of Ohio.

General Bond Retirement Fund - The general bond retirement fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Special Assessment Bond Retirement Fund - The special assessment bond retirement fund accounts for special assessments levied to pay principal and interest on debt issued to finance the benefitted property owners' share of the cost of various projects.

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

***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, investments 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 fund. Agency funds are custodial in

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Fund Accounting** (Continued)

*Fiduciary Funds* (Continued)

nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

C. **Measurement Focus**

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

*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. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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; 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 the presentation of expense versus expenditures.



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Basis of Accounting** (Continued)

***Revenues – Exchange and Nonexchange Transactions*** Revenue resulting from exchange transactions, of which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of 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 year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations are recognized in the fiscal 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, 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, 2006 but which were levied to finance year 2007 operations, have been recorded as deferred revenue. 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.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

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. **Equity in Pooled Cash and Investments**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash balances of all City funds are pooled and invested. 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 Investments. Cash equivalents consist of STAROhio, non-negotiable certificates of deposit (less than three months), Victory Federal Money Market Mutual Fund, and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2006. The allocation of interest earnings from investments to the City's funds is governed by the City Charter. Interest revenue credited to the general fund during 2006 amounted to \$120,548.

During fiscal year 2006, investments were limited to non-negotiable certificates of deposit (greater than three months) and U.S. Government Securities.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**F. Materials and Supplies Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory consists of expendable supplies held for consumption.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, water mains, storm sewers, culverts, and bridges. 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 not capitalized.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Capital Assets** (Continued)

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:

Description	Governmental Activities Estimated Lives
Building and Improvement	20 - 40 years
Machinery and Equipment	5 - 20 years
Furniture and Fixtures	15 years
Vehicles	4 - 8 years
Infrastructure	50 years

I. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net assets.

J. **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 year-end, taking into consideration any limits specified in the City's termination policy.

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. **Compensated Absences** (Continued)

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds which the employees who have accumulated the leave are paid.

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

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

L. **Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, and prepaids.

M. **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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

M. **Net Assets** (Continued)

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

N. **Interfund Activity**

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

O. **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 type of transaction occurred during 2006.

P. **Estimates**

The preparation of 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.

Q. **Budgetary Data**

An annual budget is prepared for all funds of the City. The City's budgetary process, which is governed by State law, is described below:

***Tax Budget*** - The City must submit a budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following calendar year.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Q. Budgetary Data** (Continued)

*Estimated Resources* - The County Budget Commission certifies its actions to the City by September 1 and issues a "Certificate of Estimated Resources" limiting the maximum amount the City may appropriate from a given fund during the year.

On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must prepare its appropriations so that the total appropriations from each fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources.

*Appropriations* - A temporary appropriation ordinance may be passed to control expenditures for the period January 1 through March 31. Before April 1, an annual appropriation ordinance must be passed for the period January 1 to December 31. The appropriation ordinance, which controls expenditures at the major object level, may be amended or supplemented by Council during the year as required. The major object level is further defined by grouping level. The administration may move budgeted amounts within each object grouping level. During 2006, there were few significant amendments to the appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

*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 by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges

*Encumbrances* - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. **Budgetary Data** (Continued)

*Lapsing of Appropriations* - At the close of each fiscal 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 forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

**Fund Deficit**

Fund balance at December 31, 2006 included the following individual fund deficits:

**Special Revenue**

Police Pension Fund	\$ 63,530
Fire Pension Fund	21,531

The deficits in the Police Pension Fund and the Fire Pension Fund are due to accrued liabilities. The deficit does not exist under the budgetary basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

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

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



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- e. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the general fund.

Net Change in Fund Balance	<u>General</u>
GAAP Basis	\$ (348,590)
Increase (Decrease) Due to:	
Revenue Accruals	(117,829)
Expenditure Accruals	(21,348)
Adjustment for Encumbrances	(26,201)
Budgetary Basis	<u>\$ (513,968)</u>

NOTE 5: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR'S NET ASSETS AND FUND BALANCES**

**A. Changes in Accounting Principals**

For fiscal year 2006, the City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

GASB Statement No. 45 provides guidance on all aspects of Other Postemployment Benefits (OPEB) reporting by employers. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the City.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements that amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the City.

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The implementation of GASB Statement No. 47 did not have an effect on the financial statements of the City.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**NOTE 5: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR NET ASSETS AND FUND BALANCES**

**B. Restatement of Prior Year's Net Assets**

Net assets were restated as follows:

	<u>Governmental Activities</u>
Net Assets, December 31, 2005	\$ 44,777,474
Restatement Adjustment:	
Understatement of Pension Liability	(20,042)
Net Assets, December 31, 2005, as Restated	<u>\$ 44,757,432</u>

In fiscal year 2005, the pension liability related to the governmental activities was understated by \$20,042. This understatement caused the governmental activities' net assets to be restated.

**C. Restatement of Prior Year's Fund Balances**

Fund balances were restated as follows:

	<u>General</u>	<u>Other Governmental Funds</u>
Fund Balances, December 31, 2005	\$ 2,705,838	\$ 2,643,611
Restatement Adjustment:		
Pension Liability Reclass	163,706	(163,706)
Understatement of Pension Liability	(20,042)	0
Fund Balances, December 31, 2005, as Restated	<u>\$ 2,849,502</u>	<u>\$ 2,479,905</u>

The Police Pension Fund and the Fire Pension Fund's pension liabilities were erroneously posted in the General Fund. In addition, the General Fund's pension liability was understated by \$20,042.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies 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 or 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 provide 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, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

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 (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

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

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. Payments 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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**A. Cash on Hand**

At December 31, 2006, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

**B. Deposits**

At December 31, 2006 the carrying amount of the City's deposits was \$3,040,590 (including \$2,450,000 in certificate of deposits). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2006 \$297,760 of the City's bank balance was covered by Federal Depository Insurance and \$2,746,843 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposit may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC is held in financial institution pools at Federal Reserve Banks, or at member banks of the federal reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at a Federal Reserve Bank in the name of the City.

**C. 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 Investment Pools*, and records all its investments at fair value. At December 31, 2006, fair value was \$17,959 above the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

**D. Interest Rate Risk**

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

**E. Credit Risk**

The credit risk of the City's investments are in the table below. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

**F. Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**G. Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer. The City's investment in STAROhio represents 40.0 percent of the City's total investments.

Cash and investments at year-end were as follows:

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>	
			<u>&lt;1</u>	<u>1-2</u>
STAROhio	\$ 1,007,171	AAAm	\$ 1,007,171	\$ 0
Repurchase Agreement	595,000	AAA	595,000	0
FNMA	517,383	AAA	0	517,383
Victory Federal Money Market Fund	403,380	A1P1	403,380	0
Investments	<u>2,522,934</u>		<u>\$ 2,005,551</u>	<u>\$517,383</u>
Carrying Amount of Deposits	3,040,590			
Petty Cash	700			
Total Cash and Investments	<u>\$ 5,564,224</u>			

\* Credit Rating was obtained from Standard & Poor's for all investments.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

**NOTE 7: RECEIVABLES**

Receivables at December 31, 2006, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2006 real property taxes are collected in and intended to finance 2007.

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. 2006 public utility property taxes which became a lien at December 31, 2005 are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2006 was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property - 2006 Tax Valuation	\$ 354,993,710
Public Utility Tangible Property - 2006 Tax Valuation	3,287,200
Tangible Personal Property - 2006 Tax Valuation	<u>42,262,714</u>
Total	<u>\$ 400,543,624</u>

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

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general, police pension, fire pension, parks and recreation, and general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

An income tax of 1.5 percent is levied on substantially all income earned within the City. This rate was increased to 2.00 percent, effective January 7, 2007. See Note 21 for more details. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 100 percent of the City's current tax rate. The allocation of income tax revenue to the City's various funds is determined by City Ordinance.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 7: **RECEIVABLES** (Continued)

**C. Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

At December 31, 2006, special assessments expected to be collected in more than one year amount to \$9,306,886, including delinquent special assessments of \$40,723.

**D. Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and reported in the Bond Retirement Fund.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

**E. Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<b><u>Governmental Activities</u></b>	
Estate Tax	\$ 58,542
Gasoline Tax	143,194
Local Government	112,201
Homestead and Rollback	74,279
Utility Property Tax Loss Reimbursement	26,336
Auto Registration	35,256
Permissive Tax	4,821
<b>Total Governmental Activities</b>	<b>\$ 454,629</b>

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

	Transfer In		
	General Bond Retirement	Nonmajor Governmental Funds	Total
<u>Transfer Out</u>			
General	\$ 0	\$ 380,000	\$ 380,000
General Bond Retirement	0	1,600,000	1,600,000
Nonmajor Governmental Funds	50,000	50,000	100,000
Total	<u>\$ 50,000</u>	<u>\$ 2,030,000</u>	<u>\$ 2,080,000</u>

The General Fund transferred \$190,000 to the Police Pension Fund and \$190,000 to the Fire Pension Fund for pension obligation payments. The Park and Recreation Fund transferred \$50,000 to the Capital Improvement Fund to assist with the payments of debt in relation to pool investments, as authorized by City Ordinance. The related debt is paid out of the General Bond Retirement Fund. Therefore, the Capital Improvement fund transferred \$50,000 to the General Bond Retirement Fund for payment of the pool improvement debt.

In 2006, a financial statement transfer of \$1,600,000 was made to reflect the debt service payment related to the Aberdeen Business Park Bond Anticipation Notes in the fund that recorded the liability.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2006 follows:

	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
<b><u>Governmental Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land and Land Improvements	\$ 2,870,801	\$ 0	\$ 0	\$ 2,870,801
Construction in Progress	<u>21,246</u>	<u>0</u>	<u>0</u>	<u>21,246</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,892,047</u>	<u>0</u>	<u>0</u>	<u>2,892,047</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	6,590,997	0	0	6,590,997
Machinery and Equipment	2,503,348	345,388	(161,396)	2,687,340
Furniture and Fixtures	52,181	0	0	52,181
Vehicles	1,279,427	280,070	(87,933)	1,471,564
Infrastructure	<u>59,050,495</u>	<u>0</u>	<u>0</u>	<u>59,050,495</u>
Totals at Historical Cost	<u>69,476,448</u>	<u>625,458</u>	<u>(249,329)</u>	<u>69,852,577</u>
Less Accumulated Depreciation:				
Buildings	(3,079,966)	(184,317)	0	(3,264,283)
Machinery and Equipment	(1,445,580)	(138,626)	128,203	(1,456,003)
Furniture and Equipment	(29,951)	(1,827)	0	(31,778)
Vehicles	(1,005,672)	(153,867)	69,372	(1,090,167)
Infrastructure	<u>(19,956,820)</u>	<u>(1,181,064)</u>	<u>0</u>	<u>(21,137,884)</u>
Total Accumulated Depreciation	<u>(25,517,989)</u>	<u>(1,659,701)</u>	<u>197,575</u>	<u>(26,980,115)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>43,958,459</u>	<u>(1,034,243)</u>	<u>(51,754)</u>	<u>42,872,462</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 46,850,506</u>	<u>\$(1,034,243)</u>	<u>\$ (51,754)</u>	<u>\$ 45,764,509</u>

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

General Government	\$ 57,255
Security of Persons and Property	229,348
Basic Utilities	803,963
Community Environment	1,866
Leisure Time Activities	97,657
Transportation	<u>469,612</u>
<b>Total Depreciation Expense</b>	<u>\$ 1,659,701</u>

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

**NOTE 10: COMPENSATED ABSENCES**

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be accumulated by each employee, with the exception of firemen, which can accumulate 1,345 hours.

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy does not permit vacation leave to be carried forward unless authorized by the Mayor or department head. City employees are paid for earned unused vacation leave at the time of termination of employment.

**NOTE 11: DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City 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 percent 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, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed plan.

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of the Traditional 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 writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**CITY OF HIGHLAND HEIGHTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.0 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005 and 2004 were \$285,145, \$292,910, and \$279,141, respectively; 93.1 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member directed plan for 2006 were \$4,105 made by the City and \$2,697 made by the plan members.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The 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. The 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$306,624 and \$284,848 for the year ended December 31, 2006, \$298,144 and \$284,710 for the year ended December 31, 2005, and \$281,287 and \$253,297 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 76.3 percent and 78.3 percent, respectively, have been contributed for 2006.

**CITY OF HIGHLAND HEIGHTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

**NOTE 12: POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the Member-Directed Plan do not qualify for post-retirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5 to 6 percent annually for the next nine years and 4 percent annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the Traditional and Combined Plans was 369,214. The number of active contributing participants for both plans used in December 31, 2005, actuarial valuation was 358,804. Actual City contributions for 2006 which were used to fund post-employment benefits were \$93,670. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

**CITY OF HIGHLAND HEIGHTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F funds shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post-employment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$121,863 for police and \$91,982 for fire. The OP&F's total health care expenses for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**CITY OF HIGHLAND HEIGHTS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

**NOTE 13: NOTES PAYABLE**

Note activity for the year ended December 31, 2006 consisted of the following:

	<u>Balance</u> <u>12/31/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/06</u>
<u>Capital Projects Funds</u>				
3% Bond Anticipation Notes, issued 2005 (Aberdeen Business Park)				
(Renew 2005 issue) \$1,600,000	<u>\$ 1,600,000</u>	<u>\$ 0</u>	<u>\$ (1,600,000)</u>	<u>\$ 0</u>
Total	<u>\$ 1,600,000</u>	<u>\$ 0</u>	<u>\$ (1,600,000)</u>	<u>\$ 0</u>

In 2006, the Bond Anticipation Notes were paid off with the issuance of \$1,710,000 in general obligation bonds for the Aberdeen Business Park Improvements.



**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**NOTE 14: LONG-TERM OBLIGATIONS**

Changes in the debt of the City for the year ended December 31, 2006 are as follows:

	Balance 12/31/05	Additions	Retirements	Balance 12/31/06	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
<b><u>General Obligation Bonds</u></b>					
1992 \$1,440,000 Various Purpose Improvement Bonds, 4.0-6.2%	\$ 545,000	\$ 0	\$ (70,000)	\$ 475,000	\$ 75,000
1997 \$6,495,000 Various Purpose Improvement Bonds, 3.75-5.25%	4,560,000	0	(280,000)	4,280,000	295,000
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	143,737	0	(7,012)	136,725	7,888
2001 \$4,065,000 Various Purpose Improvement Bonds, 3.0-4.8%	3,460,000	0	(165,000)	3,295,000	170,000
2006 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	0	1,710,000	0	1,710,000	40,000
<b>Total General Obligation Bonds</b>	<u>8,708,737</u>	<u>1,710,000</u>	<u>(522,012)</u>	<u>9,896,725</u>	<u>587,888</u>
<b><u>Special Assessment Bonds (a)</u></b>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	676,262	0	(32,988)	643,274	37,112
1999 \$1,280,000 Refunding of Special Assessment (Whiteford and Alpha), 5.2-6.5%	505,000	0	(155,000)	350,000	165,000
1999 \$4,460,000 Street Improvement (Aberdeen Blvd.) Bonds, 4.1-5.7%	3,710,000	0	(170,000)	3,540,000	180,000
1990 \$380,000 Street Improvement (Bishop Rd.) Bonds, 7.357%	155,000	0	(25,000)	130,000	30,000
<b>Total Special Assessment Bonds</b>	<u>5,046,262</u>	<u>0</u>	<u>(382,988)</u>	<u>4,663,274</u>	<u>412,112</u>
<b><u>Ohio Public Works Commission</u></b>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	1,189,455	0	(82,031)	1,107,424	82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewer, 0%	720,232	0	(48,016)	672,216	48,016
1998 \$145,238 Millridge Water Main Replacement, 0%	101,666	0	(7,262)	94,404	7,262
1999 \$686,733 Sanitary Sewers Selected Locations, 0%	549,386	0	(34,337)	515,049	34,337
<b>Total Ohio Public Works Commission</b>	<u>2,560,739</u>	<u>0</u>	<u>(171,646)</u>	<u>2,389,093</u>	<u>171,646</u>
<b><u>Capital Lease</u></b>					
2001 Vacuum Street Sweeper and Leaf Collector	32,704	0	(32,704)	0	0
2002 Canon Copier	6,819	0	(2,472)	4,347	2,573
<b>Total Capital Lease</b>	<u>39,523</u>	<u>0</u>	<u>(35,176)</u>	<u>4,347</u>	<u>2,573</u>
<b>Unamortized Bond Premium</b>	<u>0</u>	<u>81,594</u>	<u>(1,360)</u>	<u>80,234</u>	<u>0</u>
<b>Compensated Absences</b>	<u>919,593</u>	<u>137,438</u>	<u>(313,795)</u>	<u>743,236</u>	<u>370,187</u>
<b>Total Governmental Long-Term Obligations</b>	<u>\$ 17,274,854</u>	<u>\$ 1,929,032</u>	<u>\$ (1,426,977)</u>	<u>\$ 17,776,909</u>	<u>\$ 1,544,406</u>

- (a) Includes only the portion of the bonds expected to be paid from special assessments. The remaining portion (City's share) of the bonds is to be paid from general City revenues and is included under the "General Obligation Bonds" caption.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

The 1992 bonds were issued to improve the municipal sewerage system by constructing storm sewers and culverts. The 1997 bonds were a consolidated issue for the construction and improvement of streets, sewer systems, water mains and storm water retention facilities, and the acquisition of a pumper truck. The 1999 issue was for the City's portion of the improvement of Alpha Street. The 2001 series were issued for the improvement of streets, acquiring and installing communications equipment for the Dispatch Center, and installing a roof on the City's municipal complex.

In fiscal year 2006, the City issued \$1,710,000 in General Obligation Bonds at 4.0-5.0 percent interest rate. This bond was used to retire the \$1,600,000 bond anticipation note.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond retirement fund.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment bond retirement fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The Ohio Public Works Commission (OPWC) loans will be paid by revenues transferred from the general fund. See Note 15 for further details on capital leases. Compensated absences will be paid from the respective fund from which the employee's salary is paid.

**Legal Debt Margin**

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2006, the City's overall debt margin was \$29,446,576 with an unvoted debt margin of \$9,419,394.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2006 from the general resources of the City are as follows:

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

**Legal Debt Margin** (Continued)

<u>Year</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>OPWC</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Loans</u>
2007	\$ 587,888	\$ 491,382	\$ 412,112	\$ 253,864	\$ 171,646
2008	587,888	368,182	442,112	231,716	171,645
2009	617,888	344,375	267,112	207,882	171,645
2010	643,765	318,825	281,235	193,139	171,645
2011	679,641	291,947	260,359	178,061	171,645
2012-2016	3,499,338	1,016,799	1,525,661	668,089	858,225
2017-2021	2,440,317	318,339	1,474,683	207,158	672,642
2022-2026	840,000	27,300	0	0	0
Totals	<u>\$ 9,896,725</u>	<u>\$3,177,149</u>	<u>\$4,663,274</u>	<u>\$1,939,909</u>	<u>\$2,389,093</u>

	<u>Capital Lease</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,573	\$ 127	\$ 1,174,219	\$ 745,373
2008	1,774	76	1,203,419	599,974
2009	0	0	1,056,645	552,257
2010	0	0	1,096,645	511,964
2011	0	0	1,111,645	470,008
2012-2016	0	0	5,883,224	1,684,888
2017-2021	0	0	4,587,642	525,497
2022-2026	0	0	840,000	27,300
Totals	<u>\$ 4,347</u>	<u>\$ 203</u>	<u>\$16,953,439</u>	<u>\$5,117,261</u>

NOTE 15: **CAPITAL LEASES**

The City entered into an agreement with Lake Business Products, Inc. in June 2003 to lease one Canon digital copier in the amount of \$12,217. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date as capital assets and long-term debt. The City entered into an agreement with Bank One Leasing Corporation in December 2001 to lease one vacuum street sweeper in the amount of \$150,259.

The cost and accumulated depreciation of the assets acquired through capital leases are as follows:

<u>Governmental Activities</u>	<u>Street</u>	<u>Canon</u>	<u>Total</u>
	<u>Sweeper</u>	<u>Copier</u>	
Asset:			
Equipment	\$ 150,259	\$ 12,217	\$ 162,476
Less: Accumulated Depreciation	<u>(38,212)</u>	<u>(8,755)</u>	<u>(46,967)</u>
Net Value	<u>\$ 112,047</u>	<u>\$ 3,462</u>	<u>\$ 115,509</u>

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 15: **CAPITAL LEASES** (Continued)

The Street Sweeper lease was paid in full during 2006. The future minimum lease obligation and the net present value of of the Canon copier capital lease as of December 31, 2006 is as follows:

<u>Governmental Activities</u>	<u>Canon</u>
Future Minimum Lease Obligation	Copier
Less: Interest	\$ 4,550
Net Present Value	<u>(203)</u>
	<u>\$ 4,347</u>

NOTE 16: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION**

The Northern Ohio Risk Management Association is a shared risk pool comprised of the cities of Bedford Heights, Highland Heights, Mayfield Heights, Richmond Heights, South Euclid, Eastlake, Solon, Maple Heights, Hudson, and the village of Chagrin Falls for the purpose of enabling its members to obtain property and liability insurance, including vehicle, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a Board of Trustees that consists of the mayor from each of the participating members. Each entity must remain a member for at least three years from its initial entry date. After the initial three years, each City may extend its term by an additional three years.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2006, the City of Highland Heights paid \$158,024 in premiums from the General Fund, which represents 4.99 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio, 44146.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

**NOTE 17: RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among general fund departments and other funds in proportion to the protection provided for the assets in those general fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the general fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical and prescription benefits are provided through Medical Mutual of Ohio and dental benefits are provided through Assurant. Payments are made from the general fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits is \$461.15 for single coverage and \$1,152.17 for family coverage. The monthly premium for dental benefits is \$36.13 for single coverage and \$108.71 for family coverage.

**NOTE 18: CONTINGENT LIABILITIES**

The City is a defendant in a number of lawsuits. City management, after consultation with the City's Director of Law, is of the opinion that the ultimate disposition of such lawsuits will not result in a material adverse effect on the City's financial position.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 19: **JOINT VENTURE**

**Tri-City Consortium on Aging Council of Governments**

The Tri-City Consortium on Aging (Consortium) is a joint venture among the cities of Highland Heights, Lyndhurst, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member cities and Federal grants. The governing board of the Consortium is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, and South Euclid, with the advice of a nine-member commission. Continued existence of the Consortium is dependent on the City; however, the City has no explicit and measurable equity interest in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2006, the City contributed \$73,959, which represents 17.2 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

NOTE 20: **JOINTLY GOVERNED ORGANIZATION**

**Eastern Suburban Regional Council of Governments**

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all participating members.

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2006, the City contributed \$13,000, which represents 16.7 percent of the total contributions.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

---

---

NOTE 20: **JOINTLY GOVERNED ORGANIZATION** (Continued)

**Northeast Ohio Public Energy Council**

The City is a member of the Northeast Ohio Public Energy Council (“NOPEC”). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide electricity 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 eight-member NOPEC Board of Directors. The Board of Directors 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 of Directors. The City did not contribute to NOPEC in 2006. Financial information can be obtained by contacting NOPEC at 1615 Clarke Avenue, Cleveland, Ohio 44109.

**Mayfield Union Cemetery**

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

NOTE 21: **SUBSEQUENT EVENTS**

In November 2006, the voters of the City were asked to increase the income tax rate from 1.50 percent to 2.00 percent. The issue was approved by the residents of the City and the 2.00 percent income tax rate will become effective on January 1, 2007. This .50 percent increase is expected to generate approximately an additional \$1.7 million annually. The City plans to utilize the additional funds to stabilize the General fund as well as continuing and improving on capital equipment and projects.

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

---

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

To the Members of City Council  
City of Highland Heights, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the City of Highland Heights, Ohio's basic financial statements and have issued our report thereon dated June 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Highland Heights, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Highland Heights, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Highland Heights, Ohio's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Highland Heights, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Highland Heights, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the City of Highland Heights, Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Highland Heights, Ohio's internal control.



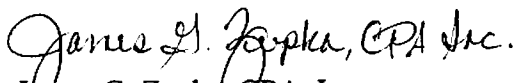
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to the management of the City of Highland Heights, Ohio, in a separate letter dated June 9, 2008.

This report is intended solely for the information and use of management, the audit committee, City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

  
James G. Zupka, CPA, Inc.  
Certified Public Accountants

June 9, 2008

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

---

---

The prior audit report, as of December 31, 2005, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



**Mary Taylor, CPA**  
Auditor of State

**CITY OF HIGHLAND 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  
JULY 29, 2008**