

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

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



Dave Yost • Auditor of State

Members of 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, 2014 through December 31, 2014. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 16, 2016

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CITY OF HIGHLAND HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014

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

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2014, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the basic financial statements, the City restated its net position at December 31, 2013 for governmental activities due to a decrease in capital assets, per a City-wide physical observation. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City Highland Heights, Ohio's internal control over financial reporting and compliance.

James G. Zupka, CPA,

President

James G. Zupka, CPA, Inc.

Certified Public Accountants

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G. Zupka, CPA,
Inc., ou=Accounting, email=jgzcpa@sbcglobal.net, c=US
Date: 2016.06.29 09:28:57 -0400

June 15, 2016

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City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2014

The discussion and analysis of the City of Highland Heights' (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2014. 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 2014 are as follows:

- The City's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$49,372,446. Of this amount, \$9,729,052 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net position decreased by \$907,572 from the prior year.
- Total liabilities and deferred inflows of resources increased by \$2,499,922 from the prior year.
- The unassigned fund balance for the General Fund was \$8,818,028 or 68.13 percent of the General Fund expenditures (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's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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).

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2014

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.

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 Position 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.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2014

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position decreased from \$50,280,018 in 2013 to \$49,372,446 in 2014 or 1.81 percent from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental activities.

Table 1 - Net Position

	Governmental Activities	
	2014	Restated 2013
<u>Assets</u>		
Current and Other Assets	\$ 22,883,181	\$ 21,076,164
Capital Assets	42,215,751	42,418,138
Total Assets	65,098,932	63,494,302
<u>Deferred Outflows of Resources</u>	85,960	98,240
<u>Liabilities</u>		
Long-term Liabilities	13,479,422	10,886,718
Other Liabilities	995,712	1,107,735
Total Liabilities	14,475,134	11,994,453
<u>Deferred Inflows of Resources</u>	1,337,312	1,318,071
<u>Net Position</u>		
Net Investment in Capital Assets	32,066,895	32,723,383
Restricted	7,576,499	7,079,369
Unrestricted	9,729,052	10,477,266
Total Net Position	\$ 49,372,446	\$ 50,280,018

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2014

Table 2 - Change in Net Position

	Governmental Activities	
	2014	2013 *
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,655,842	\$ 1,602,005
Operating Grants and Contributions	434,305	434,766
Capital Grants and Contributions	-	44,398
General Revenues:		
Property Taxes	1,602,270	1,467,995
Income Taxes	11,001,773	12,082,750
Other Taxes	14,241	16,799
Grants and Entitlements	381,816	860,447
Other	12,844	26,045
Total Revenues	15,103,091	16,535,205
<u>Program Expenses</u>		
Security of Persons and Property	7,101,632	6,821,156
Public Health Services	40,978	40,179
Leisure Time Activities	801,824	599,841
Community Environment	125,941	76,044
Basic Utility Services	2,724,821	2,632,669
Transportation	1,928,707	2,772,831
General Government	2,965,405	2,771,111
Interest and Fiscal Charges	321,355	331,370
Total Program Expenses	16,010,663	16,045,201
Change in Net Position	(907,572)	490,004
Net Position, Beginning of Year	50,280,018	49,790,014
Net Position, End of Year	\$ 49,372,446	\$ 50,280,018

* - restated

Total revenues decreased in 2014. This is primarily due to a decrease in income tax revenues and grant revenue. 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 0.50 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 2014, income tax revenue was \$11,001,773. There was a decrease of \$1,080,977 compared to prior year's collections mainly attributable to weak net profits from employer withholdings. The second largest revenue source is charges for services. Charges for services increased by \$53,837 or 3.36 percent. The City's next largest revenue source is property taxes. The City's full tax rate for collection year 2014 was 4.00 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 City School District, Cleveland

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2014

Metro Parks, Cuyahoga County Library System, Cuyahoga Community College and Cleveland-Cuyahoga Port Authority. During 2014, property taxes revenue was \$1,602,270.

Total expenses decreased in 2014. This is primarily due to increases in the areas of security of persons and property, general government, and leisure time activities and decreases in transportation. The City's decrease in expenses for 2014 was \$34,538 or 0.22 percent as compared to 2013. Expenses are categorized by programs. The largest program, security of persons and property, which includes Police, Fire, Police and Fire Communications, and Public Safety, represent 44.36 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time sworn officers, 3 part-time, and 6 auxiliary officers, 4 full-time and 2 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, and 18 full-time, 9 part-time fire fighters/paramedics, and 1 part-time secretary. 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, \$2,965,405 at 18.52 percent, basic utility services, \$2,724,821 at 17.02 percent, transportation, \$1,928,707 at 12.05 percent, and leisure time activities, \$801,824 at 5.01 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration. The significant decrease in transportation expenses when compared to 2013 is mainly attributed to less purchases of capital outlay in 2014 compared to 2013. The City has an annual road program which entails major and minor resurfacing of the various streets in the City. In 2014, the City had entered into less significant road repair projects compared to 2013. 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.

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, unassigned 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 \$16,471,363. Of this amount, \$9,672,775 constitutes assigned and unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, and committed to indicate that it is not available for new spending because it is not in a spendable form, restricted for a variety of other purposes, and has already been committed to liquidate contracts and purchase orders of prior periods(s).

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2014

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$8,818,028, while the total General Fund balance was \$9,768,211. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned General Fund balance represents 68.13 percent of General Fund expenditures (including other financing uses), while total General Fund balance represents 75.47 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 several times to prevent budget overruns.

For the General Fund, actual revenue (including other financing sources) was \$13,173,809. This was equal to the final budgeted revenues of \$13,173,809.

The original appropriation (including other financing uses) of \$14,049,219 was increased to \$14,104,319. Even with these adjustments, the actual charges to appropriations (expenditures) were \$888,906 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$42,215,751 invested in a broad range of capital assets, including land, land improvements, 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 \$202,387, or 0.48 percent over last year.

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

	Governmental Activities	
	2014	2013
Land	\$ 1,679,660	\$ 1,679,660
Construction-in-progress	944,484	-
Land Improvements	1,092,122	1,231,258
Buildings	2,896,098	3,030,782
Machinery and Equipments	935,956	1,017,910
Furniture and Fixtures	7,904	9,919
Vehicles	536,439	635,039
Infrastructures	34,123,088	34,813,570
Total Capital Assets, Net	\$ 42,215,751	\$ 42,418,138

The City purchased \$82,244 of equipment in 2014 for various departments, and invested \$79,192 into building improvements. They also purchased three Police Department Vehicles for \$73,674.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2014

The City purchased a truck for the Service Department and an aerial platform truck for Fire Department which is recorded as CIP since vehicles were not built.

See Note 10 to the financial statements for more detailed information on capital assets.

Debt

The City had \$12,154,894 in outstanding debt at December 31, 2014, compared to \$9,694,755 at December 31, 2013, as shown in Table 4.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2014	2013
General Obligation Bonds	\$ 4,744,344	\$ 5,434,373
Special Assessment Bonds	2,131,585	2,435,785
Bond Anticipation Notes	3,657,510	-
OPWC Loans	1,621,455	1,824,597
Total Outstanding Debt	\$ 12,154,894	\$ 9,694,755

The City paid \$685,800 on principal for general obligation bonds, \$304,200 on principal for special assessment bonds, and \$203,142 on principal for OPWC loans. The majority of projects funded through long term debt deal directly with infrastructure improvements. All OPWC loans are at a zero percent interest rate.

The City's general obligation bond rating continues to carry an Aa2 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001, which was reaffirmed on October 5, 2011. 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 and unamortized bond premium. More detailed information about the City's long-term liabilities is presented in Note 14 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 Joseph G. Filippo, CPA, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.

City of Highland Heights, Ohio

Statement of Net Position December 31, 2014

	<u>Governmental Activities</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 14,873,827
Materials and Supplies Inventory	171,135
Accounts Receivable	63,946
Accrued Interest Receivable	7,152
Intergovernmental Receivable	368,483
Prepaid Items	74,964
Municipal Income Taxes Receivable	2,785,154
Property Taxes Receivable	1,458,146
Special Assessments Receivable	3,080,374
Nondepreciable Capital Assets	2,624,144
Depreciable Capital Assets	39,591,607
Total Assets	<u>65,098,932</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferral on Refunding	85,960
Total Deferred Outflows of Resources	<u>85,960</u>
LIABILITIES	
Accounts Payable	222,456
Accrued Wages and Benefits	470,428
Intergovernmental Payable	235,577
Accrued Interest Payable	46,685
Retainage Payable	20,566
Long-term Liabilities:	
Due within one year	5,513,266
Due in more than one year	7,966,156
Total Liabilities	<u>14,475,134</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax	1,337,312
Total Deferred Inflows of Resources	<u>1,337,312</u>
NET POSITION	
Net Investment in Capital Assets	32,066,895
Restricted for:	
Debt Service	4,844,164
Capital Projects	1,248,989
Street Construction, Maintenance, and Repairs	827,424
Other Purposes	655,922
Unrestricted	9,729,052
Total Net Position	<u>\$ 49,372,446</u>

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Activities For the Year Ended December 31, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total</u>
Primary Government:				
Governmental activities:				
Security of Persons and Property	\$ 7,101,632	\$ 544,058	\$ 16,678	\$ (6,540,896)
Public Health Services	40,978	-	-	(40,978)
Leisure Time Activities	801,824	244,370	-	(557,454)
Community Environment	125,941	238,807	-	112,866
Basic Utility Services	2,724,821	-	-	(2,724,821)
Transportation	1,928,707	223,758	417,627	(1,287,322)
General Government	2,965,405	404,849	-	(2,560,556)
Interest and Fiscal Charges	321,355	-	-	(321,355)
Total Governmental activities	<u>\$ 16,010,663</u>	<u>\$ 1,655,842</u>	<u>\$ 434,305</u>	<u>(13,920,516)</u>
General Revenues:				
Property Taxes levied for:				
General Purposes				776,924
Debt Service Purpose				260,310
Other Purposes				565,036
Municipal Income Taxes levied for:				
General Purposes				10,176,639
Debt Service Purpose				825,134
Other Taxes				14,241
Grants & Entitlements not restricted to specific programs				381,816
Investment Income				8,167
All Other Revenues				4,677
Total General Revenues				<u>13,012,944</u>
Change in Net Position				(907,572)
Net Position- Beginning of Year, Restated				<u>50,280,018</u>
Net Position - End of Year				<u><u>\$ 49,372,446</u></u>

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2014

	General Fund	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 8,358,621	\$ 387,906	\$ 3,296,880	\$ 2,830,420	\$ 14,873,827
Materials and Supplies Inventory	20,472	-	-	150,663	171,135
Accrued Interest Receivable	7,152	-	-	-	7,152
Accounts Receivable	63,946	-	-	-	63,946
Intergovernmental Receivable	120,099	-	-	248,384	368,483
Prepaid Items	74,964	-	-	-	74,964
Municipal Income Taxes Receivable	2,576,267	-	-	208,887	2,785,154
Property Taxes Receivable	805,573	-	-	652,573	1,458,146
Special Assessments Receivable	2,668	2,835,696	-	242,010	3,080,374
Total Assets	\$ 12,029,762	\$ 3,223,602	\$ 3,296,880	\$ 4,332,937	\$ 22,883,181
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 105,632	\$ -	\$ 82,997	\$ 33,827	\$ 222,456
Accrued Wages and Benefits	469,154	-	-	1,274	470,428
Intergovernmental Payable	163,116	-	-	72,461	235,577
Retainage Payable	-	-	20,566	-	20,566
Total Liabilities	737,902	-	103,563	107,562	949,027
Deferred Inflows of Resources:					
Property Tax	737,627	-	-	599,685	1,337,312
Unavailable Revenue - Delinquent Property Tax	64,640	-	-	52,888	117,528
Unavailable Revenue - Income Tax	630,473	-	-	51,120	681,593
Unavailable Revenue - Other	90,909	2,835,696	-	399,753	3,326,358
Total Deferred Inflows of Resources	1,523,649	2,835,696	-	1,103,446	5,462,791
Fund Balances:					
Nonspendable	95,436	-	-	150,663	246,099
Restricted	-	387,906	-	2,892,407	3,280,313
Committed	-	-	3,193,317	78,859	3,272,176
Assigned	854,747	-	-	-	854,747
Unassigned	8,818,028	-	-	-	8,818,028
Total Fund Balances	9,768,211	387,906	3,193,317	3,121,929	16,471,363
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,029,762	\$ 3,223,602	\$ 3,296,880	\$ 4,332,937	\$ 22,883,181

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities December 31, 2014

Total Governmental Funds Balance		\$ 16,471,363
<i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds		42,215,751
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:		
Delinquent Property taxes	\$ 117,528	
Municipal income taxes	681,593	
Special assessments	3,080,374	
Intergovernmental	244,572	
Charges for services	1,412	
Total		4,125,479
In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(46,685)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(4,658,414)	
Special assessment bonds	(2,131,585)	
Unamortized bond and note premiums	(179,400)	
Deferral of loss on refunding	85,960	
OPWC Loan	(1,621,455)	
Compensated absences	(1,238,568)	
Bond anticipation notes	(3,650,000)	
Total		(13,393,462)
Net Position of Governmental Activities		<u>\$ 49,372,446</u>

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2014

	General Fund	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 755,856	\$ -	\$ -	\$ 808,108	\$ 1,563,964
Municipal Income Taxes	10,804,096	-	-	876,008	11,680,104
Other Taxes	-	-	-	21,013	21,013
Intergovernmental	318,829	-	-	524,297	843,126
Interest	4,867	-	3,300	-	8,167
Fees, Licenses, and Permits	453,890	-	-	53,368	507,258
Fines and Forfeitures	-	-	-	660	660
Charges for Services	444,006	-	-	252,070	696,076
Contributions and Donations	10,820	-	-	-	10,820
Special Assessments	2,603	703,422	-	231,370	937,395
All Other Revenues	220,140	-	-	4,677	224,817
Total Revenues	13,015,107	703,422	3,300	2,771,571	16,493,400
EXPENDITURES					
Security of Persons and Property	5,922,922	-	67,052	787,644	6,777,618
Public Health Services	40,978	-	-	-	40,978
Leisure Time Activities	40,134	-	12,755	540,375	593,264
Community Environment	106,286	-	-	16,855	123,141
Basic Utility Services	1,986,814	-	-	-	1,986,814
Transportation	-	-	765,819	720,819	1,486,638
General Government	2,369,335	6,876	394,161	869	2,771,241
Capital Outlay	-	-	1,643,962	12,250	1,656,212
Debt Service:					
Principal Retirement	-	543,584	-	649,559	1,193,143
Interest and Fiscal Charges	-	196,064	-	107,183	303,247
Debt Issuance Costs	-	-	-	20,938	20,938
Total Expenditures	10,466,469	746,524	2,883,749	2,856,492	16,953,234
Excess of Revenues (Under) Expenditures	2,548,638	(43,102)	(2,880,449)	(84,921)	(459,834)
OTHER FINANCING SOURCES (USES)					
Bond Anticipation Notes	-	-	3,650,000	-	3,650,000
Premium on Debt Issuance	-	-	-	16,316	16,316
Transfers In	-	-	1,911,500	665,000	2,576,500
Transfers Out	(2,476,500)	-	(50,000)	(50,000)	(2,576,500)
Total Other Financing Sources (Uses)	(2,476,500)	-	5,511,500	631,316	3,666,316
Net Change in Fund Balances	72,138	(43,102)	2,631,051	546,395	3,206,482
Fund Balances - Beginning of Year	9,692,536	431,008	562,266	2,485,241	13,171,051
Increase (Decrease) in Inventory	3,537	-	-	90,293	93,830
Fund Balances - End of Year	\$ 9,768,211	\$ 387,906	\$ 3,193,317	\$ 3,121,929	\$ 16,471,363

The notes to the basic financial statements are an integral part of this statement

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, 2014

Net Change in Fund Balances-Total Governmental Funds	3,206,482
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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 Outlay	1,656,212	
Depreciation	(1,799,950)	
Total		(143,738)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (58,649)

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

Delinquent property taxes	38,306	
Municipal income taxes	(678,331)	
Special assessments	(708,366)	
Intergovernmental	(26,193)	
Charges for services	(8,953)	
Other Taxes	(6,772)	
Total		(1,390,309)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of long-term notes and the respective premiums issued. (3,666,316)

Repayment of debt principal expenditures in the Governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. 1,193,142

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	(144,845)	
Accrued interest on bonds	(10,204)	
Amortization of bond and note premiums	25,315	
Amortization of loss on refunding	(12,280)	
Change in inventory	93,830	
Total		(48,184)

Change in Net Position of Governmental Activities	<u><u>(907,572)</u></u>
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The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$ 722,300	\$ 755,856	\$ 755,856	\$ -
Municipal Income Taxes	11,000,000	10,718,712	10,718,712	-
Intergovernmental	202,300	375,842	375,842	-
Interest	4,000	5,709	5,709	-
Fees, Licenses, and Permits	390,650	448,467	448,467	-
Charges for Services	406,600	439,210	439,210	-
Contributions and Donations	8,500	10,820	10,820	-
Special Assessments	2,000	2,603	2,603	-
All Other Revenues	153,000	416,590	416,590	-
Total Revenues	12,889,350	13,173,809	13,173,809	-
<u>Expenditures</u>				
Current:				
Security of Persons & Property	6,296,712	6,334,712	6,042,081	292,631
Public Health Services	43,861	44,861	41,585	3,276
Leisure Time Activities	41,396	46,396	43,883	2,513
Community Environment	145,718	145,718	119,005	26,713
Basic Utility Services	2,265,643	2,265,643	2,060,605	205,038
General Government	2,779,389	2,790,489	2,431,754	358,735
Total Expenditures	11,572,719	11,627,819	10,738,913	888,906
Excess of Revenues Over (Under) Expenditures	1,316,631	1,545,990	2,434,896	888,906
<u>Other Financing Sources (Uses)</u>				
Transfers Out	(2,476,500)	(2,476,500)	(2,476,500)	-
Total Other Financings Sources (Uses)	(2,476,500)	(2,476,500)	(2,476,500)	-
Net Change in Fund Balance	(1,159,869)	(930,510)	(41,604)	888,906
Fund Balance - Beginning of Year	8,006,626	8,006,626	8,006,626	-
Prior Year Encumbrances Appropriated	195,934	195,934	195,934	-
Fund Balance - End of Year	\$ 7,042,691	\$ 7,272,050	\$ 8,160,956	\$ 888,906

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2014

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 362,541
Total Assets	<u>\$ 362,541</u>
Liabilities	
Deposits Held and Due to Others	362,541
Total Liabilities	<u>\$ 362,541</u>

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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 the City 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 Northern Ohio Risk Management Association which has been defined as a risk sharing pool as presented in Note 15 and with Community Partnership on Aging Council of Governments which has been defined as a joint venture as presented in 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, 2014

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 position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and 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.

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 the City utilizes: governmental and fiduciary.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

B. **Fund Accounting** (Continued)

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 deferred outflows of resources compared to liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund 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 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 different resources that are used to construct, equip and furnish the capital assets used by the various departments of the City, as well as for various infrastructure projects.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, 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 funds. Agency funds are custodial in 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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

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 outflow/inflows, and the presentation of expenses versus expenditures.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments, and

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

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 Cash Equivalents". Investments consist of STAR Ohio, a repurchase agreement, negotiable CD's, municipal bonds, and a money market mutual fund. 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2014. 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 2014 amounted to \$4,867.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Materials and Supplies Inventory (Continued)

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, 2014, 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 position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$7,500. 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.

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:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

<u>Description</u>	Governmental Activities <u>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 “Interfund receivables/payables”. These amounts are eliminated in the governmental activities column of the statement of net position.

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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

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, and special termination benefits 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

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

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

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

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

M. Net Position

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net investments in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

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 2014.

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.

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 2014, there were few 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

Q. **Budgetary Data** (Continued)

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, and 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 restricted, committed, and assigned fund balances for subsequent year expenditures in the governmental funds.

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: **PRIOR PERIOD ADJUSTMENT**

During 2014, the City performed a city wide capital asset inventory observation. The net impact of this inventory observation decreased governmental activities' net position from \$50,378,570 to \$50,280,018 at December 31, 2013, or a net decrease of \$98,552.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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 restricted, committed, and assigned fund balance (GAAP basis);
- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and
- 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	\$ 72,138
Increase (Decrease) Due to:	
Revenue Accruals	158,702
Expenditure Accruals	(68,118)
Adjustment for Encumbrances	(204,326)
Budgetary Basis	<u>\$ (41,604)</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 5: **CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement Number 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the City.

GASB Statement Number 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2013 and have been implemented by the City.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the City.

These GASB Statements did not have an effect on the City's financial statements.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. 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, 2014, 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".

B. **Deposits**

At December 31, 2014, the carrying amount of the City's deposits was \$4,667,810. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2014, \$795,691 of the City's bank balance was covered by Federal Depository Insurance, and \$4,041,736 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

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, 2014, fair value was \$12,961 below 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.

E. **Credit Risk**

The credit risks of the City's investments are in the table below. Ohio law requires that STAR Ohio 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 repurchase agreement is 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. The City's investment in negotiable certificates of deposit were fully insured by Federal depository insurance.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

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 a repurchase agreement represents 50.9 percent of the City's total investments. The remaining investments of the City, negotiable certificates of deposit, STAR Ohio, municipal bond, and money market mutual fund, represent 37.7 percent, 6.6 percent, 4.7 percent, and 0.1 percent, respectively, of the City's total investments.

Cash and investments at year-end were as follows:

Cash and Investment Type	Fair Value	Credit Rating (*)	Investment Maturity (in years)	
			<1	1-2
STAR Ohio	\$ 697,895	AAAm	\$ 697,895	\$ -
Negotiable CD's	3,987,708	N/A	1,499,053	2,488,655
Municipal Bond	500,955	N/A	500,955	-
Repurchase Agreement	5,375,000	N/A	5,375,000	-
Victory Federal Money Market Mutual Fund	6,300	AAA	6,300	-
Total Investments	10,567,858		\$ 8,079,203	\$ 2,488,655
Carrying Amount of Deposits	4,667,810			
Petty Cash	700			
Total Cash and Investments	\$15,236,368			

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2014, 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 2014 for real and public property taxes represents collections of 2013 taxes. Property tax payments received during 2014 for tangible personal property (other than public utility property) are for 2014 taxes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 7: RECEIVABLES (Continued)

A. Property Taxes (Continued)

2014 real property taxes are levied after October 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2014 real property taxes are collected in and intended to finance 2015.

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. 2014 public utility property taxes which became a lien at December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2014, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2014 property tax receipts were based are as follows:

Real Property	\$383,223,670
Public Utility Tangible Property	<u>3,371,150</u>
Total	<u>\$386,594,820</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.

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's Fiscal Officer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County's Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2014, and for which there is an enforceable legal claim. In the General, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, and General Obligation Bond Retirement nonmajor debt service fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2014 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 7: **RECEIVABLES** (Continued)

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.

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 and collected by the County's Fiscal Officer. The County's Fiscal Officer 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, 2014, special assessments expected to be collected in more than one year amount to \$3,080,374, including delinquent special assessments of \$239,905.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 7: **RECEIVABLES** (Continued)

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 is reported in the General Obligation Bond Retirement nonmajor debt service fund.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Funds</u>	<u>Amount</u>
Gasoline Tax	\$ 156,961
Local Government	54,638
Homestead and Rollback Reimbursement	87,426
Utility Property Tax Loss Reimbursement	2,586
CAT Reimbursement	3,466
Auto Registration	30,892
Permissive Tax	5,584
Fee, Licenses & Permits	11,383
Lyndhurst Municipal Court	12,377
Miscellaneous Grants	<u>3,170</u>
Total Intergovernmental Receivables	<u>\$ 368,483</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 8: FUND BALANCES

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

Fund Balances	General	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 74,964	\$ -	\$ -	\$ -	\$ 74,964
Inventories	20,472	-	-	150,663	171,135
<i>Total Nonspendable</i>	<u>95,436</u>	<u>-</u>	<u>-</u>	<u>150,663</u>	<u>246,099</u>
<i>Restricted for</i>					
Police Pension	-	-	-	26,254	26,254
Fire Pension	-	-	-	57,138	57,138
Parks and Recreation	-	-	-	399,547	399,547
Other Law Enforcement	-	-	-	58,927	58,927
Streets and Highways	-	-	-	559,412	559,412
Street Lighting	-	-	-	125,989	125,989
FEMA Fire Assistance	-	-	-	24,357	24,357
NOPEC POC Grant	-	-	-	2,001	2,001
Other Grants	-	-	-	6,121	6,121
Debt Service	-	387,906	-	1,605,763	1,993,669
Issue II	-	-	-	26,898	26,898
<i>Total Restricted</i>	<u>-</u>	<u>387,906</u>	<u>-</u>	<u>2,892,407</u>	<u>3,280,313</u>
<i>Committed to</i>					
Capital Improvements	-	-	3,193,317	-	3,193,317
Parks and Recreation Improvements	-	-	-	34,812	34,812
Street Trees	-	-	-	44,047	44,047
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>3,193,317</u>	<u>78,859</u>	<u>3,272,176</u>
<i>Assigned to</i>					
Purchases on Order	42,105	-	-	-	42,105
Fiscal Year 2015 Appropriations	812,642	-	-	-	812,642
<i>Total Assigned</i>	<u>854,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>854,747</u>
<i>Unassigned</i>	<u>8,818,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,818,028</u>
Total Fund Balances	<u>\$ 9,768,211</u>	<u>\$ 387,906</u>	<u>\$ 3,193,317</u>	<u>\$ 3,121,929</u>	<u>\$ 16,471,363</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 9: INTERFUND TRANSFERS AND BALANCES

Transfers made during the year end December 31, 2014 were as follow:

Transfers Out	Transfers In		
	Capital Improvement	Nonmajor Governmental Funds	Total
General	\$ 1,861,500	\$ 615,000	\$ 2,476,500
Capital Improvement	-	50,000	50,000
Nonmajor Governmental Funds	50,000	-	50,000
Total	\$ 1,911,500	\$ 665,000	\$ 2,576,500

The General Fund transferred \$305,000 to the Police Pension Fund and \$310,000 to the Fire Pension Fund for pension obligation payments. In addition, the General Fund transferred \$1,861,500 to the Capital Improvement Fund for the purposes of capital improvement purchases. 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 10: CAPITAL ASSETS

A summary of changes in capital assets during 2014 follows:

	Restated Balance 1/1/2014	Additions	Disposals	Balance 12/31/2014
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Construction in Progress	-	944,484	-	944,484
Total Capital Assets Not Being Depreciated	1,679,660	944,484	-	2,624,144
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,149,403	-	-	2,149,403
Buildings	7,508,184	79,192	-	7,587,376
Machinery and Equipments	2,498,664	82,244	(302,477)	2,278,431
Furniture and Fixtures	57,758	-	-	57,758
Vehicles	2,333,144	73,674	(121,973)	2,284,845
Infrastructures				
Roads	22,992,711	476,618	(68,762)	23,400,567
Water Mains	11,399,753	-	-	11,399,753
Sanitary Sewers	13,440,785	-	-	13,440,785
Storm Sewers	15,992,277	-	-	15,992,277
Culverts	222,342	-	-	222,342
Bridges	216,549	-	-	216,549
Traffic Signals	84,068	-	-	84,068
Totals at Historical Cost	78,895,638	711,728	(493,212)	79,114,154
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(918,145)	(139,136)	-	(1,057,281)
Buildings	(4,477,402)	(213,876)	-	(4,691,278)
Machinery and Equipments	(1,480,754)	(120,969)	259,248	(1,342,475)
Furniture and Fixtures	(47,839)	(2,015)	-	(49,854)
Vehicles	(1,698,105)	(158,229)	107,928	(1,748,406)
Infrastructures				
Roads	(10,045,540)	(414,556)	67,387	(10,392,709)
Water Mains	(5,935,442)	(188,182)	-	(6,123,624)
Sanitary Sewers	(5,745,227)	(253,438)	-	(5,998,665)
Storm Sewers	(7,583,631)	(299,959)	-	(7,883,590)
Culverts	(111,462)	(3,867)	-	(115,329)
Bridges	(56,303)	(4,331)	-	(60,634)
Traffic Signals	(57,310)	(1,392)	-	(58,702)
Total Accumulated Depreciation	(38,157,160)	(1,799,950)	434,563	(39,522,547)
<i>Total Capital Assets, being Depreciated, Net</i>	<i>40,738,478</i>	<i>(1,088,222)</i>	<i>(58,649)</i>	<i>39,591,607</i>
Governmental Activities Capital Assets, Net	\$ 42,418,138	\$ (143,738)	\$ (58,649)	\$ 42,215,751

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 10: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 94,660
Security of Persons and Property	217,069
Basic Utilities	745,446
Community Environment	2,669
Leisure Time Activities	207,744
Transportation	532,362
Total Depreciation Expense	<u><u>\$ 1,799,950</u></u>

NOTE 11: 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 converted by each employee, with the exception of firemen, who can convert 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 12: PENSION PLAN

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 Pension 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 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 in nature to, but less than, 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 12: **PENSION PLAN** (Continued)

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of 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 in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting www.opers.org/investments/cafr, writing to OPERS, 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, the members of all three plans were required to contribute 10.00 percent of their earnable salaries. The City's contribution rate was 14.00 percent of earnable salary. The pension allocation for the Traditional and Combined Plans was 12.00 during calendar year 2014. The City's required contributions for the Traditional Pension and Combined Plans for the years ended December 31, 2014, 2013, and 2012 were \$363,958, \$357,411, and \$352,839, respectively; 93.12 percent has been contributed for 2014 and 100 percent has been contributed for 2013 and 2012. The unpaid contribution to fund pension obligations for 2014, in the amount of \$25,051, is recorded as a liability within the respective funds.

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 pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information 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. The report is also available on OP&F's website at www.op-f.org.

From January 1, 2014 thru July 1, 2014, Plan members are required to contribute 10.75 percent of their annual covered salary. From July 2, 2014 thru December 31, 2014, Plan members were required to contribute 11.50 percent of their annual covered salary. Throughout 2014, the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations from January 1, 2014 thru December 31, 2014, for police officers and firefighters was 19.00 percent and 23.50 percent, respectively. The City's contributions for pension obligations to the OP&F for police officers and firefighters were \$409,627 and \$399,914 for the year ended December 31, 2014,

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 12: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

\$372,895 and \$357,619 for year ended December 31, 2013, \$355,123 and \$358,020 for the year ended December 31, 2012. 91.92 percent and 92.18 percent has been contributed for 2014; respectively, and 100 percent for 2013 and 2012. The total unpaid contribution to fund pension obligations for 2014, in the amount of \$64,367, is recorded as a liability within the respective funds.

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS**

A. Ohio Public Employees Retirement System

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

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

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS's eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. The 2014 local government employer contribution rate was 14.00 percent of earnable salary. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of earnable salaries for local government employers. 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 Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefit. The portion of employer contributions allocated to health care for members in the Traditional Plan was 2.00 percent during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.00 percent for both plans, as recommended by the OPERS actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions to fund post-employment benefits for 2014, 2013 and 2012 were \$51,994, \$25,529, and \$100,811, respectively; 93.12 percent has been contributed for 2014 and 100 percent has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00 percent of the employer contributions toward the health care fund after the end of the transition period.

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

Plan Description - 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 OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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

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

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 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 maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2014 thru December 31, 2014. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 13: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

The City's contributions for pension obligations to the OP&F for police officers and firefighters were \$10,503 and \$8,332 for the year ended December 31, 2014, \$69,161 and \$53,891 for year ended December 31, 2013, \$122,927 and \$100,693 for the year ended December 31, 2012. 91.92 percent and 92.18 percent has been contributed for 2014; respectively, and 100 percent for 2013 and 2012.

NOTE 14: **LONG-TERM OBLIGATIONS**

Changes in the debt of the City for the year ended December 31, 2014, are as follows:

	Principal Outstanding 12/31/2013	Additions	Deletions	Principal Outstanding 12/31/2014	Amounts Due in One Year
<u>Governmental Activities</u>					
<u>Bond Anticipation Notes</u>					
Various Purpose Income Tax Anticipation Notes, Series 2014, 3650000, 0.75%	\$ -	\$ 3,650,000	\$ -	\$ 3,650,000	\$ 3,650,000
Unamortized Note Premium	-	16,316	(8,806)	7,510	-
Total Bond Anticipation Notes	-	3,666,316	(8,806)	3,657,510	3,650,000
<u>General Obligation Bonds</u>					
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	74,214	-	(10,800)	63,414	11,394
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	1,280,000	-	(75,000)	1,205,000	80,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.00-3.125%	3,990,000	-	(600,000)	3,390,000	630,000
Total General Obligation Bonds	5,344,214	-	(685,800)	4,658,414	721,394
<u>Special Assessment Bonds (a)</u>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	350,785	-	(49,200)	301,585	53,606
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	2,085,000	-	(255,000)	1,830,000	265,000
Total Special Assessment Bonds	2,435,785	-	(304,200)	2,131,585	318,606

(Continued)

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Principal Outstanding 12/31/2013	Additions	Deletions	Principal Outstanding 12/31/2014	Amounts Due in One Year
<u>Governmental Activities</u> (Continued)					
<i><u>Ohio Public Works Commission</u></i>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	\$ 574,222	\$ -	\$ (82,031)	\$ 492,191	\$ 82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	360,115	-	(48,015)	312,100	48,015
1998 \$145,238 Millridge Water Main Replacement, 0%	47,202	-	(7,262)	39,940	7,262
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	291,859	-	(34,337)	257,522	34,337
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	551,199	-	(31,497)	519,702	31,497
<i>Total Ohio Public Works Commission</i>	<u>1,824,597</u>	<u>-</u>	<u>(203,142)</u>	<u>1,621,455</u>	<u>203,142</u>
<i><u>Other Long-term Liabilities</u></i>					
Unamortized Bond Premium	188,399	-	(16,509)	171,890	-
Compensated Absences	1,093,723	685,254	(540,409)	1,238,568	620,124
<i>Total Other Long-term Liabilities</i>	<u>1,282,122</u>	<u>685,254</u>	<u>(556,918)</u>	<u>1,410,458</u>	<u>620,124</u>
Total Governmental Long-Term Liabilities	<u>\$ 10,886,718</u>	<u>\$ 4,351,570</u>	<u>\$ (1,758,866)</u>	<u>\$ 13,479,422</u>	<u>\$ 5,513,266</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.

The 1999 bonds were for the City's portion of the improvement of Alpha Street. The 2007 bonds were issued for the construction of Aberdeen Business Park.

In 2014, the City issued \$3,650,000 in Various Purpose Income Tax Anticipation Note. The note will mature on June 17, 2015. As of December 31, 2014, the City expended \$1,643,962 of the proceeds on capital assets leaving a balance of \$2,006,038 to spend on capital asset projects.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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

Defeased Debt

On October 5, 2011, the City issued \$5,145,000 in bonds for the purpose of refunding all of the City's outstanding various purpose improvements bonds, series 1997 and series 2001. The refunding bonds were issued to refund at a lower overall interest cost all of the outstanding 2011 bonds maturing after December 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 1997 and 2001 bonds was \$6,506,803 versus \$5,851,963 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$654,840. The present value of the difference between the two debt streams using the arbitrage yield was \$596,290 which constitutes the economic gain on the transaction. As of December 31, 2014, the amount of defeased debt outstanding amounted to \$3,480,000.

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, except for the 2007 Aberdeen Business Park Improvement Bond. This bond is paid out of the Special Assessment Bond Retirement Fund since it is payable from proceeds of assessments.

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 and from special assessment proceeds.

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, 2014, the City's overall debt margin was \$33,882,295 with an unvoted debt margin of \$14,552,554.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2014, from the general resources of the City are as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 721,394	\$ 147,138	\$ 318,606	\$ 118,137
2016	757,270	124,406	337,730	100,851
2017	753,147	107,226	356,853	82,387
2018	413,147	89,146	371,853	62,730
2019	408,456	76,940	396,543	42,092
2020-2024	1,350,000	199,708	350,000	19,950
2025-2029	255,000	19,250	-	-
Totals	<u>\$ 4,658,414</u>	<u>\$ 763,814</u>	<u>\$ 2,131,585</u>	<u>\$ 426,147</u>

Year	OPWC Loans		Total	
	Principal	Interest	Principal	Interest
2015	\$ 203,142	\$ -	\$ 1,243,142	\$ 265,275
2016	203,142	-	1,298,142	225,257
2017	203,142	-	1,313,142	189,613
2018	203,142	-	988,142	151,876
2019	203,142	-	1,008,141	119,032
2020-2024	401,011	-	2,101,011	219,658
2025-2029	157,485	-	412,485	19,250
2030-2031	47,249	-	47,249	-
Totals	<u>\$ 1,621,455</u>	<u>\$ -</u>	<u>\$ 8,411,454</u>	<u>\$ 1,189,961</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, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, University Heights, 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 15: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION** (Continued)

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 2014, the City of Highland Heights paid \$93,930 in premiums from the General Fund, which represents 4.68 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of South Euclid, 1349 South Green Road, South Euclid, Ohio, 44121.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 16: **RISK MANAGEMENT** (Continued)

The medical and prescription benefits are provided through United Healthcare from January 1 through December 31, 2014. Dental and vision benefits are provided through Cigna. 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 through United Healthcare is \$358.69 for single coverage; \$857.04 for employee and spouse coverage; \$779.68 for employee and children coverage; and \$1,256.93 for family coverage. The monthly premium for dental and vision benefits is \$31.14 for single coverage and \$97.10 for family coverage.

NOTE 17: **CONTINGENT LIABILITIES**

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.

NOTE 18: **JOINT VENTURE**

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2014, the City contributed \$92,065, which represents 10.67 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

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. The City did not contribute to ESCOG in 2014.

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 2014. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 19: JOINTLY GOVERNED ORGANIZATION (Continued)

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 20: OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2014, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 204,326
Capital Improvement	555,891
Nonmajor Funds:	
Special Revenue Funds	27,016
Capital Projects Funds	9,500
Total	<u>\$ 796,733</u>

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

Certified Public Accountants

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Garfield Hts., Ohio 44125

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 15, 2016, wherein we noted the City restated its net position at December 31, 2013 for governmental activities due to a decrease in capital assets, per a City-wide physical observation.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

James G. Zupka,

CPA, President

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

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2016.06.29 09:29:18 -04'00'

June 15, 2016

**CITY OF HIGHLAND HEIGHTS, OHIO
STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

The prior audit report, as of December 31, 2013, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • 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
AUGUST 30, 2016**