



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2017 AND 2016**

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**CITY OF HIGHLAND HEIGHTS
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DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

City of Highland Heights
Cuyahoga County
5827 Highland Road
Highland Heights, Ohio 44143

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio (the City), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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www.ohioauditor.gov

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, as of December 31, 2017 and 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

March 7, 2019

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2017

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, 2017. 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 2017 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 \$40,494,223. Of this amount, \$421,526 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net position increased \$74,329 from the prior year.
- Total liabilities and deferred inflows of resources decreased by \$764,015 from the prior year.
- The unassigned fund balance for the General Fund was \$8,469,447 or 60.11 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, 2017

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 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, 2017

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 increased from \$40,419,894 in 2016 to \$40,494,223 in 2017 or 0.18 percent from the prior year.

The table below provides a summary of the City's net position for 2017 and 2016.

Table 1 - Net Position

	Governmental Activities	
	2017	2016
<u>Assets</u>		
Current and Other Assets	\$ 22,669,058	\$ 24,096,107
Capital Assets	43,889,148	42,791,618
Total Assets	66,558,206	66,887,725
<u>Deferred Outflows of Resources</u>		
Deferral on Refunding	49,120	61,400
Pension	3,538,271	3,886,158
Total Deferred Outflows of Resources	3,587,391	3,947,558
<u>Liabilities</u>		
Long-term Liabilities		
Due within one year	5,629,184	5,922,462
Due in More than One Year:		
Net Pension Liability	14,841,466	14,432,576
Other Amounts	6,801,626	6,207,264
Other Liabilities	492,703	2,212,320
Total Liabilities	27,764,979	28,774,622
<u>Deferred Inflows of Resources</u>		
Property Tax	1,337,355	1,338,675
Pension	549,040	302,092
Total Deferred Inflows of Resources	1,886,395	1,640,767
<u>Net Position</u>		
Net Investment in Capital Assets	33,062,262	30,600,657
Restricted	7,853,487	9,080,068
Unrestricted	(421,526)	739,169
Total Net Position	\$ 40,494,223	\$ 40,419,894

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2017

The City has adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2017

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2017, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$40,494,223. At year-end, unrestricted net position had a deficit of \$421,526. A portion of the City's net position, \$7,853,487, represents resources that are subject to external restriction on how they may be used.

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 65.94 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles, and infrastructure. The net investment in capital assets component of net position at December 31, 2017, was \$33,062,262 for governmental activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2017

The table below shows the changes in net position for fiscal year 2017 and 2016.

Table 2 - Change in Net Position

	Governmental Activities	
	2017	2016
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,918,584	\$ 1,860,753
Operating Grants and Contributions	463,434	447,498
Capital Grants and Contributions	31,873	816,918
General Revenues:		
Property Taxes	1,449,642	1,448,854
Municipal Income Taxes	12,744,837	12,566,590
Other Taxes	47,901	25,844
Grants and Entitlements	246,184	285,750
Other	125,246	172,163
Total Revenues	17,027,701	17,624,370
<u>Program Expenses</u>		
Security of Persons and Property	8,163,133	8,137,757
Public Health Services	42,096	42,741
Leisure Time Activities	1,186,347	828,385
Community Environment	123,559	135,079
Basic Utility Services	3,066,284	2,775,582
Transportation	1,344,544	1,997,152
General Government	2,799,720	2,627,202
Interest and Fiscal Charges	227,689	249,259
Total Program Expenses	16,953,372	16,793,157
Change in Net Position	74,329	831,213
Net Position, Beginning of Year	40,419,894	39,588,681
Net Position, End of Year	\$ 40,494,223	\$ 40,419,894

Total revenues decreased in 2017. This is primarily due to a decrease in capital grants and contributions and grants and entitlements. Capital grants and contributions decreased due to the city being granted funds from OPWC in 2016 and not in 2017. 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 2017, income tax revenue was \$12,744,837. There was an increase of \$178,247 compared to prior year's collections mainly attributable to lower net profits from employer withholdings in 2017. The City's second largest revenue source is charges for services. Charges for services increased by \$57,831 or 3.11 percent. The City's next largest revenue source is property taxes. The City's full tax rate for collection year 2017 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

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2017

the property multiplied by the property effective tax rate levied by Cuyahoga County, City of Highland Heights, Mayfield City School District, Cleveland Metro Parks, Cuyahoga County Library System, Cuyahoga Community College and Cleveland-Cuyahoga Port Authority. During 2017, property taxes revenue was \$1,449,642.

Total expenses increased in 2017. This is primarily due to increases in the areas of leisure time activities and basic utility services. The City's increase in expenses for 2017 was \$160,215 or 1 percent as compared to 2016. 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 48.15 percent of the governmental expenses. The Police Department is made up of 1 chief, 24 full-time sworn officers, 4 part-time, and 5 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, 8 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 1 employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The next largest programs are basic utility services, \$3,066,284 at 18.09 percent, general government, \$2,799,720 at 16.51 percent, transportation, \$1,344,544 at 7.93 percent, and leisure time activities, \$1,186,347 at 7.00 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration.

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 \$18,616,334. Of this amount, \$11,208,401 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).

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 \$8,469,447, while the total General Fund balance was \$11,417,098. 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

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2017

Fund balance represents 60.11 percent of General Fund expenditures (including other financing uses), while total General Fund balance represents 81.02 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 the same as the final budgeted revenues of \$13,662,074.

The original appropriation (including other financing uses) of \$15,111,696 was increased to \$15,601,819. Even with these adjustments, the actual charges to appropriations (expenditures) were \$1,260,610 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$43,889,148 invested in a broad range of capital assets, including land, construction-in-progress, land improvements, buildings, improvements, machinery and equipment, furniture and fixtures, roads, and water and sewer lines (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$1,097,530, or 2.56 percent over last year.

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

	Governmental Activities	
	2017	2016
Land	\$ 1,679,660	\$ 1,679,660
Construction-in-progress	3,174,781	1,142,363
Land Improvements	832,299	968,860
Buildings	2,287,544	2,490,704
Machinery and Equipments	897,767	910,303
Furniture and Fixtures	14,710	16,561
Vehicles	1,365,172	1,148,923
Infrastructures	33,637,215	34,434,244
Total Capital Assets, Net	\$ 43,889,148	\$ 42,791,618

The City has continued the Highland Road Water Main Replacement Project in 2017 that was recorded as CIP and to be completed in 2018.

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

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2017

Debt

The City had \$10,876,006 in outstanding debt at December 31, 2017, compared to \$12,252,363 at December 31, 2016, as shown in Table 4.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2017	2016
General Obligation Bonds	\$ 2,548,965	\$ 3,318,621
Special Assessment Bonds	1,118,398	1,475,251
Bond Anticipation Notes	4,008,942	5,530,182
OPWC Loans	3,199,701	1,928,309
Total Outstanding Debt	\$ 10,876,006	\$ 12,252,363

The City paid \$753,147 on principal for general obligation bonds, \$356,853 on principal for special assessment bonds, and \$237,481 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, 2017

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 16,194,422
Materials and Supplies Inventory	103,007
Accounts Receivable	106,909
Accrued Interest Receivable	26,822
Intergovernmental Receivable	351,142
Prepaid Items	172,458
Municipal Income Taxes Receivable	3,414,268
Property Taxes Receivable	1,400,561
Special Assessments Receivable	899,469
Nondepreciable Capital Assets	4,854,441
Depreciable Capital Assets	39,034,707
Total Assets	66,558,206
DEFERRED OUTFLOWS OF RESOURCES	
Deferral on Refunding	49,120
Pension	3,538,271
Total Deferred Outflows of Resources	3,587,391
LIABILITIES	
Accounts Payable	134,706
Contracts Payable	37,292
Accrued Wages and Benefits	163,645
Intergovernmental Payable	101,454
Accrued Interest Payable	55,606
Long-term Liabilities:	
Due within One Year	5,629,184
Due in More than One Year:	
Net Pension Liability (see Note 11)	14,841,466
Other Amounts	6,801,626
Total Liabilities	27,764,979
DEFERRED INFLOWS OF RESOURCES	
Property Tax	1,337,355
Pension	549,040
Total Deferred Inflows of Resources	1,886,395
NET POSITION	
Net Investment in Capital Assets	33,062,262
Restricted for:	
Debt Service	2,051,224
Capital Projects	3,764,350
Street Construction, Maintenance, and Repairs	1,033,174
Other Purposes	1,004,739
Unrestricted	(421,526)
Total Net Position	\$ 40,494,223

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

City of Highland Heights, Ohio

Statement of Activities December 31, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary Government:					
Governmental activities:					
Security of Persons and Property	\$ 8,163,133	\$ 639,743	\$ 23,261	\$ -	\$ (7,500,129)
Public Health Services	42,096	-	-	-	(42,096)
Leisure Time Activities	1,186,347	254,111	2,675	-	(929,561)
Community Environment	123,559	131,601	-	-	8,042
Basic Utility Services	3,066,284	-	-	-	(3,066,284)
Transportation	1,344,544	323,468	437,498	31,873	(551,705)
General Government	2,799,720	569,661	-	-	(2,230,059)
Interest and Fiscal Charges	227,689	-	-	-	(227,689)
Total Governmental activities	\$ 16,953,372	\$ 1,918,584	\$ 463,434	31,873	(14,539,481)
General Revenues:					
Property Taxes levied for:					
General Purposes					762,109
Debt Service Purpose					133,251
Other Purposes					554,282
Municipal Income Taxes levied for:					
General Purposes					11,788,974
Debt Service Purpose					955,863
Other Taxes					47,901
Grants & Entitlements not restricted to specific programs					246,184
Investment Income					62,376
Gain (Loss) on Sale of Capital Assets					8,738
All Other Revenues					54,132
Total General Revenues					<u>14,613,810</u>
Change in Net Position					74,329
Net Position- Beginning of Year					40,419,894
Net Position - End of Year					<u><u>\$ 40,494,223</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, 2017

	General Fund	Special Assessment Bond Retirement	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in Pooled Cash and Cash Equivalents	\$ 9,134,363	\$ 387,979	\$ 848,182	\$ 3,757,979	\$ 2,065,919	\$ 16,194,422
Materials and Supplies Inventory	36,242	-	-	-	66,765	103,007
Accrued Interest Receivable	26,822	-	-	-	-	26,822
Accounts Receivable	106,909	-	-	-	-	106,909
Intergovernmental Receivable	99,643	-	4,490	-	247,009	351,142
Prepaid Items	172,455	-	-	-	3	172,458
Municipal Income Taxes Receivable	3,158,198	-	256,070	-	-	3,414,268
Property Taxes Receivable	770,939	-	71,366	-	558,256	1,400,561
Special Assessments Receivable	-	605,612	-	-	293,857	899,469
Total Assets	13,505,571	993,591	1,180,108	3,757,979	3,231,809	22,669,058
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 75,975	\$ -	\$ -	\$ 13,795	\$ 44,936	\$ 134,706
Accrued Wages and Benefits	139,281	-	-	-	24,364	163,645
Contracts Payable	-	-	-	37,292	-	37,292
Intergovernmental Payable	34,812	-	-	-	66,642	101,454
Total Liabilities	250,068	-	-	51,087	135,942	437,097
Deferred Inflows of Resources:						
Property Tax	735,547	-	66,869	-	534,939	1,337,355
Unavailable Revenue - Delinquent Property Tax	32,060	-	2,915	-	23,317	58,292
Unavailable Revenue - Income Tax	934,027	-	75,732	-	-	1,009,759
Unavailable Revenue - Other	136,771	605,612	4,490	-	463,348	1,210,221
Total Deferred Inflows of Resources	1,838,405	605,612	150,006	-	1,021,604	3,615,627
Fund Balances:						
Nonspendable	208,697	-	-	-	66,768	275,465
Restricted	-	387,979	1,030,102	-	1,956,326	3,374,407
Committed	-	-	-	3,706,892	51,169	3,758,061
Assigned	2,738,954	-	-	-	-	2,738,954
Unassigned	8,469,447	-	-	-	-	8,469,447
Total Fund Balances	11,417,098	387,979	1,030,102	3,706,892	2,074,263	18,616,334
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,505,571	\$ 993,591	\$ 1,180,108	\$ 3,757,979	\$ 3,231,809	\$ 22,669,058

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, 2017

Total Governmental Funds Balance	\$	18,616,334
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Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds		43,889,148
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:

Delinquent Property taxes	\$	58,292	
Municipal income taxes		1,009,759	
Special assessments		899,469	
Intergovernmental		242,445	
Charges for services		68,307	
Total		2,278,272	2,278,272

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(55,606)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension		3,538,271	
Deferred Inflows - Pension		(549,040)	
Net Pension Liability		(14,841,466)	
Total		(11,852,235)	(11,852,235)

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		(2,426,601)	
Special assessment bonds		(1,118,398)	
Unamortized bond premiums		(131,306)	
Deferral of loss on refunding		49,120	
OPWC Loan		(3,199,701)	
Compensated absences		(1,554,804)	
Bond anticipation notes		(4,000,000)	
Total		(12,381,690)	(12,381,690)

Net Position of Governmental Activities	\$	40,494,223
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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 - Governmental Funds For the Year Ended December 31, 2017

	General Fund	Special Assessment Bond Retirement	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 764,029	\$ -	\$ 133,425	\$ -	\$ 555,678	\$ 1,453,132
Municipal Income Taxes	11,595,234	-	940,154	-	-	12,535,388
Other Taxes	3,332	-	21,335	-	23,234	47,901
Intergovernmental	182,994	-	8,980	31,873	535,030	758,877
Interest	-	-	-	62,347	29	62,376
Fees, Licenses, and Permits	359,598	-	-	-	-	359,598
Fines and Forfeitures	-	-	-	-	1,093	1,093
Charges for Services	531,351	-	-	67,894	257,711	856,956
Contributions and Donations	10,601	-	-	-	-	10,601
Special Assessments	4,270	724,688	-	-	238,068	967,026
All Other Revenues	358,727	-	-	4,964	45,332	409,023
Total Revenues	<u>13,810,136</u>	<u>724,688</u>	<u>1,103,894</u>	<u>167,078</u>	<u>1,656,175</u>	<u>17,461,971</u>
EXPENDITURES						
Security of Persons and Property	6,320,106	-	-	22,382	793,544	7,136,032
Public Health Services	42,096	-	-	-	-	42,096
Leisure Time Activities	51,478	-	-	298,979	576,365	926,822
Community Environment	100,409	-	-	-	11,605	112,014
Basic Utility Services	2,098,435	-	-	25,352	-	2,123,787
Transportation	-	-	-	105,053	556,762	661,815
General Government	2,433,335	7,084	22,950	59,278	-	2,522,647
Capital Outlay	-	-	-	3,064,093	28,518	3,092,611
Debt Service:						
Principal Retirement	-	606,236	4,741,245	-	-	5,347,481
Interest and Fiscal Charges	-	134,637	126,746	13,833	-	275,216
Total Expenditures	<u>11,045,859</u>	<u>747,957</u>	<u>4,890,941</u>	<u>3,588,970</u>	<u>1,966,794</u>	<u>22,240,521</u>
Excess of Revenues (Under) Expenditures	<u>2,764,277</u>	<u>(23,269)</u>	<u>(3,787,047)</u>	<u>(3,421,892)</u>	<u>(310,619)</u>	<u>(4,778,550)</u>
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	5,994	-	-	-	-	5,994
Issuance of Bond Anticipation Notes	-	-	4,000,000	-	-	4,000,000
OPWC Loans Issued	-	-	-	1,508,873	-	1,508,873
Premium on Debt Issuance	-	-	20,120	-	-	20,120
Transfers In	-	-	-	3,975,000	600,000	4,575,000
Transfers Out	(3,045,000)	-	(1,530,000)	-	-	(4,575,000)
Total Other Financing Sources (Uses)	<u>(3,039,006)</u>	<u>-</u>	<u>2,490,120</u>	<u>5,483,873</u>	<u>600,000</u>	<u>5,534,987</u>
Net Change in Fund Balances	<u>(274,729)</u>	<u>(23,269)</u>	<u>(1,296,927)</u>	<u>2,061,981</u>	<u>289,381</u>	<u>756,437</u>
Fund Balances - Beginning of Year	11,678,587	411,248	2,327,029	1,644,911	1,830,578	17,892,353
Increase (Decrease) in Inventory	13,240	-	-	-	(45,696)	(32,456)
Fund Balances - End of Year	<u>\$ 11,417,098</u>	<u>\$ 387,979</u>	<u>\$ 1,030,102</u>	<u>\$ 3,706,892</u>	<u>\$ 2,074,263</u>	<u>\$ 18,616,334</u>

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, 2017

Net Change in Fund Balances-Total Governmental Funds	756,437
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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 capital outlay exceeded depreciation in the current period.

Capital Outlay	3,092,611	
Depreciation	<u>(1,973,188)</u>	
Total		1,119,423

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.

(21,893)

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

Delinquent property taxes	(3,490)	
Municipal income taxes	209,449	
Special assessments	(707,182)	
Intergovernmental	(7,129)	
Charges for services	<u>68,088</u>	
Total		(440,264)

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 loans, notes, and premiums.

(5,528,993)

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

5,347,481

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

1,120,231

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

(2,123,956)

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	(169,208)	
Accrued interest on bonds	10,171	
Amortization of bond premiums	49,636	
Amortization of loss on refunding	(12,280)	
Change in inventory	<u>(32,456)</u>	
Total		<u>(154,137)</u>

Change in Net Position of Governmental Activities	<u><u>74,329</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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 715,732	\$ 765,137	\$ 764,029	\$ (1,108)
Municipal Income Taxes	10,667,634	11,403,988	11,387,476	(16,512)
Intergovernmental	302,066	322,917	322,449	(468)
Interest	31,216	33,370	33,322	(48)
Fees, Licenses, and Permits	348,955	373,042	372,502	(540)
Charges for Services	370,496	396,070	395,497	(573)
Contributions and Donations	9,931	10,616	10,601	(15)
Special Assessments	4,000	4,276	4,270	(6)
All Other Revenues	329,887	352,658	352,147	(511)
Total Revenues	12,779,916	13,662,074	13,642,293	(19,781)
<u>Expenditures</u>				
Current:				
Security of Persons & Property	7,074,594	7,086,616	6,436,129	650,487
Public Health Services	48,710	48,710	43,727	4,983
Leisure Time Activities	48,542	59,143	57,298	1,845
Community Environment	133,254	138,254	101,528	36,726
Basic Utility Services	2,345,127	2,345,127	2,150,558	194,569
General Government	2,861,469	2,875,969	2,506,969	369,000
Total Expenditures	12,511,696	12,553,819	11,296,209	1,257,610
Excess of Revenues Over (Under) Expenditures	268,220	1,108,255	2,346,084	1,237,829
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	-	-	9,781	9,781
Advances In	-	-	10,000	10,000
Transfers Out	(2,600,000)	(3,048,000)	(3,045,000)	3,000
Total Other Financings Sources (Uses)	(2,600,000)	(3,048,000)	(3,025,219)	22,781
Net Change in Fund Balance	(2,331,780)	(1,939,745)	(679,135)	1,260,610
Fund Balance - Beginning of Year	9,477,229	9,477,229	9,477,229	-
Prior Year Encumbrances Appropriated	197,617	197,617	197,617	-
Fund Balance - End of Year	\$ 7,343,066	\$ 7,735,101	\$ 8,995,711	\$ 1,260,610

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, 2017

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 212,977
Total Assets	<u>\$ 212,977</u>
Liabilities	
Deposits Held and Due to Others	\$ 212,977
Total Liabilities	<u>\$ 212,977</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, 2017

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 Community Partnership on Aging Council of Governments, the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 18 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.

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, 2017

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, 2017

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 are 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.

General Bond Retirement Fund – The General Bond Retirement Fund accounts for and reports restricted taxes for the payment of principal and interest and fiscal charges on debt.

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, 2017

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, 2017

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 6). 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 and pension 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. The deferred outflows of resources related to pension are explained in Note 11.

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, pension, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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

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

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 charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

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**

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

During 2017, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), non-negotiable certificates of deposits, a repurchase agreement, and municipal bonds. The City's investment in State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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

F. **Materials and Supplies Inventory**

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

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

Inventory consists of expendable supplies held for consumption.

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2017, 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 acquisition 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, 2017

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, 2017

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, 2017

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, 2017

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 2017.

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 2017, 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, 2017

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.

R. **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

During the year, the City implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the City.

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The object of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The implementation of GASB Statement No. 82 did not have an effect on City's beginning net position.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$ (274,729)
Increase (Decrease) Due to:	
Revenue Accruals	(154,056)
Expenditure Accruals	(79,659)
Adjustment for Encumbrances	(170,691)
Budgetary Basis	<u>\$ (679,135)</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

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, 2017, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

At December 31, 2017, the carrying amount of all City deposits was \$1,900,585. Based on the criteria described in GASB Statement No. 40, Deposits and *Investment Risk Disclosures*, as of December 31, 2017, \$750,000 of the City's bank balance of \$2,278,271 was exposed to custodial risk as discussed below, while \$1,528,271 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

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

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

One of the City's financial institutions joined OPCS as of December 31, 2017 and two were in the process. The financial institutions still maintained their own collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

C. **Investments**

The City has a formal investment policy and utilizes a pooled investment concept for all its funds to maximize its investment program. STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identify the City's recurring fair value measurement as of December 31, 2017. As previously discussed Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 inputs). As of December 31, 2017, fair value was \$41,021 below the City's net cost for investments.

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, 2017

NOTE 5: **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 negotiable certificates of deposit represents 46.4 percent of the City's total investments. The remaining investments of the City, a repurchase agreement, STAR Ohio, and municipal bond, represent 39.7 percent, 4.9 percent, and 23.3 percent, 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	\$ 709,908	AAAm	\$ 709,908	\$ -
Negotiable CD's	6,727,460	N/A	1,249,895	5,477,565
Municipal Bond	1,312,482	N/A	551,362	761,120
Repurchase Agreement	5,752,593	N/A	5,752,593	-
Victory Federal Money Market Mutual Fund	3,671	AAA	3,671	-
Total Investments	14,506,114		\$ 8,267,429	\$ 6,238,685
Carrying Amount of Deposits	1,900,585			
Petty Cash	700			
Total Cash and Investments	\$ 16,407,399			

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

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2017, 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 2017 for real and public property taxes represents collections of 2016 taxes. Property tax payments received during 2017 for tangible personal property (other than public utility property) are for 2017 taxes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 6: RECEIVABLES (Continued)

A. Property Taxes (Continued)

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

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. 2017 public utility property taxes which became a lien at December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2017 property tax receipts were based are as follows:

Real Property	\$391,374,290
Public Utility Tangible Property	<u>3,855,820</u>
Total	<u>\$395,230,110</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, 2017, and for which there is an enforceable legal claim. In the General, General Obligation Bond Retirement, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2017 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, 2017

NOTE 6: **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, 2017, special assessments expected to be collected in more than one year amount to \$899,469 including delinquent special assessments of \$237,115.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 6: **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	\$ 161,700
Local Government	30,466
Homestead and Rollback Reimbursement	89,807
Auto Registration	34,118
Permissive Tax	5,629
Lyndhurst Municipal Court	19,783
Fees, Licenses and Permits	910
Miscellaneous Grants	<u>8,729</u>
Total Intergovernmental Receivables	<u>\$ 351,142</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 7: 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	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepaid Items	\$ 172,455	\$ -	\$ -	\$ -	\$ 3	\$ 172,458
Inventories	36,242	-	-	-	66,765	103,007
<i>Total Nonspendable</i>	<u>208,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,768</u>	<u>275,465</u>
<i>Restricted for</i>						
Police Pension	-	-	-	-	169,861	169,861
Fire Pension	-	-	-	-	163,251	163,251
Parks and Recreation	-	-	-	-	516,778	516,778
Other Law Enforcement	-	-	-	-	76,084	76,084
Streets and Highways	-	-	-	-	832,841	832,841
Street Lighting	-	-	-	-	149,750	149,750
FEMA Fire Assistance	-	-	-	-	16,795	16,795
NOPEC POC Grant	-	-	-	-	2,001	2,001
Other Grants	-	-	-	-	2,067	2,067
Debt Service	-	387,979	1,030,102	-	-	1,418,081
Issue II	-	-	-	-	26,898	26,898
<i>Total Restricted</i>	<u>-</u>	<u>387,979</u>	<u>1,030,102</u>	<u>-</u>	<u>1,956,326</u>	<u>3,374,407</u>
<i>Committed to</i>						
Capital Improvements	-	-	-	3,706,892	-	3,706,892
Parks and Recreation Improvements	-	-	-	-	25,252	25,252
Street Trees	-	-	-	-	25,917	25,917
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,706,892</u>	<u>51,169</u>	<u>3,758,061</u>
<i>Assigned to</i>						
Purchases on Order	1,375,930	-	-	-	-	1,375,930
Fiscal Year 2018 Appropriations	1,363,024	-	-	-	-	1,363,024
<i>Total Assigned</i>	<u>2,738,954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,738,954</u>
<i>Unassigned</i>						
	8,469,447	-	-	-	-	8,469,447
Total Fund Balances	<u><u>\$ 11,417,098</u></u>	<u><u>\$ 387,979</u></u>	<u><u>\$ 1,030,102</u></u>	<u><u>\$ 3,706,892</u></u>	<u><u>\$ 2,074,263</u></u>	<u><u>\$ 18,616,334</u></u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 8: INTERFUND TRANSFERS AND BALANCES

A. Interfund Transfers

Transfers made during the year end December 31, 2017 were as follow:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	
General	\$ 2,445,000	\$ 600,000	\$ 3,045,000
General Bond Retirement	1,530,000	-	1,530,000
Total	<u>\$ 3,975,000</u>	<u>\$ 600,000</u>	<u>\$ 4,575,000</u>

The General Fund transferred \$300,000 to the Police Pension Fund and \$300,000 to the Fire Pension Fund for pension obligation payments. In addition, the General Fund transferred \$2,445,000 to the Capital Improvement Fund for the purposes of capital improvement purchases. The related debt is paid out of the General Bond Retirement Fund.

B. Interfund Balances

The Due from Agency Fund and Due to General Fund of \$10,000 in the Agency Funds and General Fund recorded at December 31, 2016, was due to the city expending money out for equipment repairs that will be paid by another Agency as a reimbursement. As of December 31, 2017 the City had been reimbursed.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2017 follows:

	Balance 12/31/2016	Additions	Disposals	Balance 12/31/2017
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Construction in Progress	1,142,363	2,032,418	-	3,174,781
Total Capital Assets Not Being Depreciated	<u>2,822,023</u>	<u>2,032,418</u>	<u>-</u>	<u>4,854,441</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,289,092	-	-	2,289,092
Buildings	7,610,507	11,781	-	7,622,288
Machinery and Equipments	2,367,152	120,945	(18,768)	2,469,329
Furniture and Fixtures	61,416	-	-	61,416
Vehicles	2,830,855	506,410	(119,379)	3,217,886
Infrastructures				
Roads	25,986,791	366,902	-	26,353,693
Water Mains	11,399,753	54,155	-	11,453,908
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	<u>82,501,587</u>	<u>1,060,193</u>	<u>(138,147)</u>	<u>83,423,633</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,320,232)	(136,561)	-	(1,456,793)
Buildings	(5,119,803)	(214,941)	-	(5,334,744)
Machinery and Equipments	(1,456,849)	(133,106)	18,393	(1,571,562)
Furniture and Fixtures	(44,855)	(1,851)	-	(46,706)
Vehicles	(1,681,932)	(268,643)	97,861	(1,852,714)
Infrastructures				
Roads	(11,168,621)	(471,137)	-	(11,639,758)
Water Mains	(6,499,949)	(189,245)	-	(6,689,194)
Sanitary Sewers	(6,503,907)	(249,866)	-	(6,753,773)
Storm Sewers	(8,482,109)	(298,562)	-	(8,780,671)
Culverts	(123,064)	(3,867)	-	(126,931)
Bridges	(69,296)	(4,331)	-	(73,627)
Traffic Signals	(61,375)	(1,078)	-	(62,453)
Total Accumulated Depreciation	<u>(42,531,992)</u>	<u>(1,973,188) *</u>	<u>116,254</u>	<u>(44,388,926)</u>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>39,969,595</u>	<u>(912,995)</u>	<u>(21,893)</u>	<u>39,034,707</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,791,618</u>	<u>\$ 1,119,423</u>	<u>\$ (21,893)</u>	<u>\$ 43,889,148</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 9: CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 94,699
Security of Persons and Property	316,602
Basic Utilities	741,540
Leisure Time Activities	200,701
Transportation	619,646
Total Depreciation Expense	<u><u>\$ 1,973,188</u></u>

NOTE 10: COMPENSATED ABSENCES

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be 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 11: PENSION PLAN

A. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

A. **Net Pension Liability** (Continued)

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

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

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

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

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

	<u>State and Local</u>
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0</u>
Total Employer	<u><u>14.0 %</u></u>
Employee	<u><u>10.0 %</u></u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions was \$348,295 for 2017. Of this amount, \$30,157 is reported as intergovernmental payable.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25	12.25
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$771,936 for 2017. Of this amount, \$77,493 is reported as intergovernmental payable.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.020318%	0.0832094%	0.0864334%	
Proportion of the Net Pension Liability Current Measurement Date	0.019893%	0.080710%	0.0822870%	
Change in Proportionate Share	-0.000425%	-0.002499%	-0.004146%	
Proportionate Share of the Net Pension Liability	\$ 4,517,362	\$ 5,112,113	\$ 5,211,991	\$ 14,841,466
Pension Expense	\$ 936,911	\$ 573,401	\$ 613,644	\$ 2,123,956

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F Police	OP&F Fire	Total
Deferred Outflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$672,739	\$497,130	\$506,844	\$1,676,713
Changes of assumptions	716,508	0	0	\$716,508
Differences between expected and actual experience	6,123	1,446	1,475	9,044
Changes in proportion and differences between City contributions and proportionate share of contributions	0	0	15,775	15,775
City contributions subsequent to the measurement date	348,295	378,925	393,011	1,120,231
Total Deferred Outflows of Resources	\$1,743,665	\$877,501	\$917,105	\$3,538,271
Deferred Inflows of Resources				
Differences between expected and actual experience	\$26,885	\$11,770	\$12,000	\$50,655
Changes in proportion and differences between City contributions and proportionate share of contributions	40,508	270,545	187,332	498,385
Total Deferred Inflows of Resources	\$67,393	\$282,315	\$199,332	\$549,040

\$1,120,231 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F Police	OP&F Fire	Total
2018	\$543,389	\$128,893	\$159,372	\$831,654
2019	566,648	128,892	159,372	\$854,912
2020	237,658	83,841	113,443	\$434,942
2021	(19,718)	(93,640)	(67,511)	(\$180,869)
2022	0	(29,537)	(36,272)	(65,809)
Thereafter	0	(2,188)	(3,642)	(5,830)
Total	\$1,327,977	\$216,261	\$324,762	\$1,869,000

F. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical view and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OPERS** (Continued)

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

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$6,901,280	\$4,517,362	\$2,530,787

G. **Actuarial Assumptions – OP&F**

OP&F’s total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: PENSION PLAN (Continued)

F. Actuarial Assumptions – OP&F (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	0 %		
Domestic Equity	16.00	4.46 %	5.21 %
Non-US Equity	16.00	4.66	5.40
Core Fixed Income *	20.00	1.67	2.37
Global Inflation Protected *	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	<u>120.00 %</u>		

* levered 2x

** numbers are net of expected inflation

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 11: **PENSION PLAN** (Continued)

G. **Actuarial Assumptions – OP&F** (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	<u>1% Decrease (7.25%)</u>	<u>Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City's proportionate share of the net pension liability	\$13,750,433	10,324,104	\$7,420,174

Changes Between Measurement Date and Report Date In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

NOTE 12: **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 benefit 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 health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. The trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East 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 of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.00 percent during calendar year 2017.

As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.00 percent for both plans. The Board 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 employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent. The City's actual employer contributions for December 31, 2017, 2016 and 2015 which were used to fund post-employment benefits were \$28,098, \$54,423, and \$52,859, respectively; 92.33 percent has been contributed for 2017 and 100 percent for 2016 and 2015.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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 benefit 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.

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 East 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

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, 2017 thru December 31, 2017. 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.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$9,976 and \$8,283 for the year ended December 31, 2017, \$9,724 and \$8,038 for the year ended December 31, 2016, and \$10,387 and \$8,581 for the year ended December 31, 2015, respectively; 90.44 percent and 89.87 percent has been contributed for 2017 and 100 percent for 2016 and 2015.

NOTE 13: **SHORT-TERM OBLIGATIONS**

The City's note activity, including the amount outstanding and the interest rate, is as follows:

	Principal Outstanding 12/31/2016	Additions	Deletions	Principal Outstanding 12/31/2017
<u>Governmental Activities</u>				
<i><u>Bond Anticipation Notes</u></i>				
Various Purpose Income Tax				
Anticipation Notes, Series 2016, 5,500,000, 1.0%	\$ 1,500,000	\$ -	\$ (1,500,000)	\$ -
Unamortized Note Premium	8,231	\$ -	(8,231)	\$ -
<i>Total Bond Anticipation Notes</i>	<u>\$ 1,508,231</u>	<u>\$ -</u>	<u>\$ (1,508,231)</u>	<u>\$ -</u>

During 2017, the City retired the \$1,500,000 bond anticipation notes that were due on June 14, 2017.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2017, are as follows:

	Principal Outstanding 12/31/2016	Additions	Deletions	Principal Outstanding 12/31/2017	Amounts Due in One Year
<u>Governmental Activities</u>					
<i><u>Bond Anticipation Notes</u></i>					
Various Purpose Income Tax Anticipation Notes, Series 2016, 5,500,000, 1.0%	\$ 4,000,000	\$ -	\$ (4,000,000)	\$ -	\$ -
Unamortized Note Premium	21,949	-	(21,949)	-	-
Various Purpose Income Tax Anticipation Notes, Series 2017, 4,000,000, 1.0%	-	4,000,000	-	4,000,000	4,000,000
Unamortized Note Premium	-	20,120	(11,178)	8,942	-
<i>Total Bond Anticipation Notes</i>	<u>4,021,949</u>	<u>4,020,120</u>	<u>(4,033,127)</u>	<u>4,008,942</u>	<u>4,000,000</u>
<i><u>General Obligation Bonds</u></i>					
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	39,748	-	(13,147)	26,601	13,147
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	1,045,000	-	(85,000)	960,000	90,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125%	2,095,000	-	(655,000)	1,440,000	310,000
<i>Total General Obligation Bonds</i>	<u>3,179,748</u>	<u>-</u>	<u>(753,147)</u>	<u>2,426,601</u>	<u>413,147</u>
<i><u>Special Assessment Bonds (a)</u></i>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	190,251	-	(61,853)	128,398	61,853
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	1,285,000	-	(295,000)	990,000	310,000
<i>Total Special Assessment Bonds</i>	<u>1,475,251</u>	<u>-</u>	<u>(356,853)</u>	<u>1,118,398</u>	<u>371,853</u>
<u>Governmental Activities (Continued)</u>					
<i><u>Ohio Public Works Commission</u></i>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	328,129	-	(82,035)	246,094	82,035
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	216,069	-	(48,014)	168,055	48,014
1998 \$145,238 Millridge Water Main Replacement, 0%	25,416	-	(7,262)	18,154	7,262
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	188,848	-	(34,332)	154,516	34,332
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	456,708	-	(31,498)	425,210	31,498
2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0%	686,800	-	(34,340)	652,460	34,341
2015 \$1,703,770 Highland Road Water Main Replacement, 0%	26,339	1,508,873	-	1,535,212	-
<i>Total Ohio Public Works Commission</i>	<u>1,928,309</u>	<u>1,508,873</u>	<u>(237,481)</u>	<u>3,199,701</u>	<u>237,482</u>

(Continued)

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Principal Outstanding 12/31/2016	Additions	Deletions	Principal Outstanding 12/31/2017	Amounts Due in One Year
<i>Other Long-term Liabilities</i>					
Unamortized Bond Premium	\$ 138,873	\$ -	\$ (16,509)	\$ 122,364	\$ -
Net Pension Liability					
OPERS	3,519,331	998,031	-	4,517,362	-
OP&F - Police	5,352,922	-	(240,809)	5,112,113	-
OP&F - Fire	5,560,323	-	(348,332)	5,211,991	-
Total Net Pension Liability	<u>14,432,576</u>	<u>998,031</u>	<u>(589,141)</u>	<u>14,841,466</u>	<u>-</u>
Compensated Absences	1,385,596	744,188	(574,980)	1,554,804	606,702
<i>Total Other Long-term Liabilities</i>	<u>15,957,045</u>	<u>1,742,219</u>	<u>(1,180,630)</u>	<u>16,518,634</u>	<u>606,702</u>
Total Governmental Long-Term Liabilities	<u>\$ 26,562,302</u>	<u>\$ 7,271,212</u>	<u>\$ (6,561,238)</u>	<u>\$ 27,272,276</u>	<u>\$ 5,629,184</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.

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. The 2011 refunding balance was 1,440,000 as of December 31, 2017.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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

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.

In 2015, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$1,703,770. These funds are being used for Highland Road Water Main Replacement project which was started in 2016. The debt is a zero percent interest loan over twenty years. As of December 31, 2017, the loan balance for the portion of the project completed was \$1,535,212. An amortization schedule has not been prepared by OPWC since project is still ongoing.

The 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2017

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

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2017, the City's overall debt margin was \$36,481,700 with an unvoted debt margin of \$16,720,194.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2017, from the general resources of the City are as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 413,147	\$ 89,146	\$ 371,854	\$ 62,730
2019	408,454	76,940	396,544	42,092
2020	425,000	64,038	350,000	19,950
2021	365,000	49,388	-	-
2022	-	-	-	-
2023-2027	815,000	105,532	-	-
Totals	\$ 2,426,601	\$ 385,044	\$ 1,118,398	\$ 124,772

Year	OPWC Loans		Total	
	Principal	Interest	Principal	Interest
2018	\$ 237,482	-	\$ 1,022,483	\$ 151,876
2019	237,482	-	1,042,480	119,032
2020	233,851	-	1,008,851	83,988
2021	124,180	-	489,180	49,388
2022	-	-	815,000	105,532
2023-2027	346,354	-	346,354	-
2028-2032	313,437	-	313,437	-
2033-2037	171,700	-	171,700	-
Totals	\$ 1,664,487	\$ -	\$ 5,209,484	\$ 509,816

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, 2017

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 after a deductible of \$7,000 is met. 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 2017, the City of Highland Heights paid \$64,537 in premiums from the General Fund, which represents 4.28 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

NOTE 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, 2017

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

The medical and prescription benefits are provided through United Healthcare from January 1 through December 31, 2017. 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 \$468.67 for single coverage; \$1,119.81 for employee and spouse coverage; \$1,018.73 for employee and children coverage; and \$1,642.31 for family coverage. The monthly premium for dental and vision benefits is \$34.30 for single coverage and \$107.33 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: **JOINTLY GOVERNED ORGANIZATIONS**

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a council of governments 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 2017, the City contributed \$90,586. To obtain a copy of the Partnership'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, 2017

NOTE 18: **JOINTLY GOVERNED ORGANIZATION** (Continued)

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 contributed \$18,000 to ESCOG in 2017.

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 2017. Financial information can be obtained by contacting NOPEC, 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, 2017

NOTE 18: **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 19: **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, 2017, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 170,691
Capital Improvement	1,294,787
Nonmajor Funds:	
Special Revenue Funds	<u>177,885</u>
Total	<u><u>\$ 1,643,363</u></u>

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Four Years (1)

Traditional Plan	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.019893%	0.020318%	0.020421%	0.020421%
City's Proportionate Share of the Net Pension Liability	\$4,517,362	\$3,519,331	\$2,463,001	\$2,407,370
City's Covered-Employee Payroll	\$2,571,567	\$2,528,742	\$2,511,908	\$2,749,315
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	175.67%	139.17%	98.05%	87.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Four Years (1)

Police	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0807100%	0.0832094%	0.0877892%	0.0877892%
City's Proportionate Share of the Net Pension Liability	\$5,112,113	\$5,352,922	\$4,547,845	\$4,275,609
City's Covered-Employee Payroll	\$1,944,758	\$1,907,674	\$1,932,211	\$2,370,598
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	262.87%	280.60%	235.37%	180.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%
Fire	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0822870%	0.0864334%	0.0859751%	0.0859751%
City's Proportionate Share of the Net Pension Liability	\$5,211,991	\$5,560,323	\$4,453,869	\$4,187,257
City's Covered-Employee Payroll	\$1,607,672	\$1,585,928	\$1,533,106	\$1,767,766
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	324.19%	350.60%	290.51%	236.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System
Last Five Years (1)

	2017	2016	2015	2014	2013
Contractually Required Contributions	\$348,295	\$308,588	\$303,449	\$301,429	\$357,411
Contributions in Relation to the Contractually Required Contribution	(\$348,295)	(\$308,588)	(\$303,449)	(\$301,429)	(\$357,411)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0
City's Covered-Employee Payroll	\$2,679,192	\$2,571,567	\$2,528,742	\$2,511,908	\$2,749,315
Pension Contributions as a Percentage of Covered-Employee Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Contractually Required Contributions</u>										
Police	\$378,925	\$369,504	\$362,458	\$367,120	\$372,895	\$355,123	\$354,841	\$346,840	\$336,563	\$323,600
Fire	\$393,011	\$377,803	\$372,693	\$360,280	\$357,619	\$358,019	\$353,068	\$315,439	\$311,313	\$308,812
Total Required Contributions	\$771,936	\$747,307	\$735,151	\$727,400	\$730,514	\$713,142	\$707,909	\$662,279	\$647,876	\$632,412
Contributions in Relation to the Contractually Required Contribution	(\$771,936)	(\$747,307)	(\$735,151)	(\$727,400)	(\$730,514)	(\$713,142)	(\$707,909)	(\$662,279)	(\$647,876)	(\$632,412)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered-Employee Payroll										
Police	\$1,994,342	\$1,944,758	\$1,907,674	\$1,932,211	\$2,370,598	\$2,785,278	\$2,783,067	\$2,720,314	\$2,639,710	\$2,538,039
Fire	\$1,672,387	\$1,607,672	\$1,585,928	\$1,533,106	\$1,767,766	\$2,075,472	\$2,046,771	\$1,828,632	\$1,804,713	\$1,790,214
<u>Pension Contributions as a Percentage of Covered-</u> <u>Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%	17.25%

[1] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

City of Highland Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2017

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2016

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, 2016. 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 2016 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 \$40,419,894. Of this amount, \$739,169 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net position increased by \$831,213 from the prior year.
- Total liabilities and deferred inflows of resources increased by \$2,868,064 from the prior year.
- The unassigned fund balance for the General Fund was \$8,810,489 or 83.26 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, 2016

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 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, 2016

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 increased from \$39,588,681 in 2015 to \$40,419,894 in 2016 or 2.10 percent from the prior year.

The table below provides a summary of the City's net position for 2016 and 2015.

Table 1 - Net Position

	Governmental Activities	
	2016	2015
<u>Assets</u>		
Current and Other Assets	\$ 24,096,107	\$ 21,892,046
Capital Assets	42,791,618	43,612,296
Total Assets	66,887,725	65,504,342
<u>Deferred Outflows of Resources</u>		
Deferral on Refunding	61,400	73,680
Pension	3,886,158	1,557,984
Total Deferred Outflows of Resources	3,947,558	1,631,664
<u>Liabilities</u>		
Long-term Liabilities		
Due within one year	5,922,462	1,824,138
Due in More than One Year:		
Net Pension Liability	14,432,576	11,464,715
Other Amounts	6,207,264	7,169,427
Other Liabilities	2,212,320	5,782,844
Total Liabilities	28,774,622	26,241,124
<u>Deferred Inflows of Resources</u>		
Property Tax	1,338,675	1,262,931
Pension	302,092	43,270
Total Deferred Inflows of Resources	1,640,767	1,306,201
<u>Net Position</u>		
Net Investment in Capital Assets	30,600,657	31,507,874
Restricted	9,080,068	7,475,026
Unrestricted	739,169	605,781
Total Net Position	\$ 40,419,894	\$ 39,588,681

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2016

In 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2016

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$40,419,894. At year-end, unrestricted net position had a surplus of \$739,169. A portion of the City's net position, \$9,080,068, represents resources that are subject to external restriction on how they may be used.

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 63.98 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles, and infrastructure. The net investment in capital assets component of net position at December 31, 2016, was \$30,600,657 for governmental activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2016

The table below shows the changes in net position for fiscal year 2016 and 2015.

Table 2 - Change in Net Position

	Governmental Activities	
	2016	2015
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,860,753	\$ 1,625,706
Operating Grants and Contributions	447,498	475,272
Capital Grants and Contributions	816,918	144,513
General Revenues:		
Property Taxes	1,448,854	1,425,292
Income Taxes	12,566,590	11,723,339
Other Taxes	25,844	23,638
Grants and Entitlements	285,750	330,780
Other	172,163	77,169
Total Revenues	17,624,370	15,825,709
<u>Program Expenses</u>		
Security of Persons and Property	8,137,757	7,238,341
Public Health Services	42,741	30,206
Leisure Time Activities	828,385	807,108
Community Environment	135,079	119,874
Basic Utility Services	2,775,582	2,729,953
Transportation	1,997,152	2,077,930
General Government	2,627,202	2,472,272
Interest and Fiscal Charges	249,259	292,383
Total Program Expenses	16,793,157	15,768,067
Change in Net Position	831,212	57,642
Net Position, Beginning of Year	39,588,681	39,531,039
Net Position, End of Year	\$ 40,419,893	\$ 39,588,681

Total revenues increased in 2016. This is primarily due to an increase in income tax revenues and capital grants and contributions. Capital grants and contributions increased due to the city being granted funds from OPWC in 2016. 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 2016, income tax revenue was \$12,566,590. There was an increase of \$843,251 compared to prior year's collections mainly attributable to lower net profits from employer withholdings in 2015. The City's second largest revenue source is charges for services. Charges for services increased by \$235,047 or 14.46 percent. The City's next largest revenue source is property taxes. The City's full tax rate for

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2016

collection year 2016 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 Metro Parks, Cuyahoga County Library System, Cuyahoga Community College and Cleveland-Cuyahoga Port Authority. During 2016, property taxes revenue was \$1,448,854.

Total expenses increased in 2016. This is primarily due to increases in the areas of security of persons and property, and general government. The City's increase in expenses for 2016 was \$1,025,090 or 6.50 percent as compared to 2015. Expenses are categorized by programs. The largest program, security of persons and property, which includes Police, Fire, Police and Fire Communications, and Public Safety, represents 48.46 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 3 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, and 18 full-time, 11 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 basic utility services, \$2,775,582 at 16.53 percent, general government, \$2,627,202 at 15.64 percent, transportation, \$1,997,152 at 11.89 percent, and leisure time activities, \$828,385 at 4.93 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration.

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 \$17,892,353. Of this amount, \$11,575,453 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).

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 \$8,810,489, while the total General Fund balance was \$11,678,587. As a measure of the General Fund's liquidity, it may be useful to compare both

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2016

unassigned fund balance and total fund balance to total fund expenditures. Unassigned General Fund balance represents 70.19 percent of General Fund expenditures (including other financing uses), while total General Fund balance represents 93.04 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 \$13,703,290. This was equal to the final budgeted revenues of \$13,703,290.

The original appropriation (including other financing uses) of \$14,041,406 was increased to \$14,104,689. Even with these adjustments, the actual charges to appropriations (expenditures) were \$1,068,394 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$42,791,618 invested in a broad range of capital assets, including land, construction-in-progress, land improvements, buildings, improvements, machinery and equipment, furniture and fixtures, roads, and water and sewer lines (see Table 3 below). This amount represents a net decrease (including additions and deductions) of \$820,678, or 1.88 percent over last year.

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

	Governmental Activities	
	2016	2015
Land	\$ 1,679,660	\$ 1,679,660
Construction-in-progress	1,142,363	2,853,500
Land Improvements	968,860	1,013,395
Buildings	2,490,704	2,697,459
Machinery and Equipments	910,303	974,123
Furniture and Fixtures	16,561	3,915
Vehicles	1,148,923	1,436,405
Infrastructures	34,434,244	32,953,839
Total Capital Assets, Net	\$ 42,791,618	\$ 43,612,296

The City completed the Miner Rod Improvement Project in 2016 and recorded as road infrastructure. The City has started the Highland Road Water Main Replacement Project in 2016 that was recorded as CIP.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2016

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

Debt

The City had \$12,262,361 in outstanding debt at December 31, 2016, compared to \$12,588,262 at December 31, 2015, as shown in Table 4.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2016	2015
General Obligation Bonds	\$ 3,318,621	\$ 4,092,401
Special Assessment Bonds	1,475,251	1,812,980
Bond Anticipation Notes	5,530,180	4,712,938
OPWC Loans	1,928,309	1,969,943
Total Outstanding Debt	\$ 12,252,361	\$ 12,588,262

The City paid \$757,271 on principal for general obligation bonds, \$337,729 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, 2016

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 17,413,257
Materials and Supplies Inventory	135,463
Accounts Receivable	48,098
Accrued Interest Receivable	19,607
Intergovernmental Receivable	351,968
Due from Agency Fund	10,000
Prepaid Items	80,132
Municipal Income Taxes Receivable	2,980,216
Property Taxes Receivable	1,410,996
Special Assessments Receivable	1,646,370
Nondepreciable Capital Assets	2,822,023
Depreciable Capital Assets	39,969,595
Total Assets	66,887,725
DEFERRED OUTFLOWS OF RESOURCES	
Deferral on Refunding	61,400
Pension	3,886,158
Total Deferred Outflows of Resources	3,947,558
LIABILITIES	
Accounts Payable	225,980
Contracts Payable	145,543
Accrued Wages and Benefits	139,400
Intergovernmental Payable	111,222
Accrued Interest Payable	81,944
Notes Payable	1,508,231
Long-term Liabilities:	
Due within One Year	5,922,462
Due in More than One Year:	
Net Pension Liability (see Note 11)	14,432,576
Other Amounts	6,207,264
Total Liabilities	28,774,622
DEFERRED INFLOWS OF RESOURCES	
Property Tax	1,338,675
Pension	302,092
Total Deferred Inflows of Resources	1,640,767
NET POSITION	
Net Investment in Capital Assets	30,600,657
Restricted for:	
Debt Service	4,070,391
Capital Projects	3,230,252
Street Construction, Maintenance, and Repairs	942,580
Other Purposes	836,845
Unrestricted	739,169
Total Net Position	\$ 40,419,894

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

City of Highland Heights, Ohio

Statement of Activities December 31, 2016

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		Total
Primary Government:					
Governmental activities:					
Security of Persons and Property	\$ 8,137,757	\$ 503,977	\$ 16,425	\$ -	\$ (7,617,355)
Public Health Services	42,741	-	-	-	(42,741)
Leisure Time Activities	828,385	257,091	-	-	(571,294)
Community Environment	135,079	175,799	-	-	40,720
Basic Utility Services	2,775,582	-	-	-	(2,775,582)
Transportation	1,997,152	413,655	431,073	816,918	(335,506)
General Government	2,627,202	510,231	-	-	(2,116,971)
Interest and Fiscal Charges	249,259	-	-	-	(249,259)
Total Governmental activities	\$ 16,793,157	\$ 1,860,753	\$ 447,498	816,918	(13,667,988)
General Revenues:					
Property Taxes levied for:					
					722,241
					201,339
					525,274
Municipal Income Taxes levied for:					
					11,624,096
					942,494
					25,844
					285,750
					86,734
					85,429
					<u>14,499,201</u>
					831,213
					39,588,681
					<u>\$ 40,419,894</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, 2016

	General Fund	Special Assessment Bond Retirement	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in Pooled Cash and Cash Equivalents	\$ 9,683,344	\$ 411,248	\$ 2,170,590	\$ 3,389,195	\$ 1,758,880	\$ 17,413,257
Materials and Supplies Inventory	23,002	-	-	-	112,461	135,463
Accrued Interest Receivable	19,607	-	-	-	-	19,607
Accounts Receivable	45,354	-	-	-	2,744	48,098
Due from Other Agency	10,000	-	-	-	-	10,000
Intergovernmental Receivable	104,942	-	4,479	-	242,547	351,968
Prepaid Items	80,132	-	-	-	-	80,132
Municipal Income Taxes Receivable	2,756,700	-	223,516	-	-	2,980,216
Property Taxes Receivable	779,613	-	71,201	-	560,182	1,410,996
Special Assessments Receivable	-	1,330,300	-	-	316,070	1,646,370
Total Assets	13,502,694	1,741,548	2,469,786	3,389,195	2,992,884	24,096,107
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 78,513	\$ -	\$ -	\$ 82,574	\$ 64,893	\$ 225,980
Accrued Wages and Benefits	126,961	-	-	-	12,439	139,400
Contracts Payable	-	-	-	145,543	-	145,543
Intergovernmental Payable	31,930	-	-	-	79,292	111,222
Accrued Interest Payable	-	-	-	16,167	-	16,167
Notes Payable	-	-	8,231	1,500,000	-	1,508,231
Total Liabilities	237,404	-	8,231	1,744,284	156,624	2,146,543
Deferred Inflows of Resources:						
Property Tax	736,271	-	66,935	-	535,469	1,338,675
Unavailable Revenue - Delinquent Property Tax	33,980	-	3,089	-	24,713	61,782
Unavailable Revenue - Income Tax	740,287	-	60,023	-	-	800,310
Unavailable Revenue - Other	76,165	1,330,300	4,479	-	445,500	1,856,444
Total Deferred Inflows of Resources	1,586,703	1,330,300	134,526	-	1,005,682	4,057,211
Fund Balances:						
Nonspendable	103,134	-	-	-	112,461	215,595
Restricted	-	411,248	2,327,029	-	1,633,883	4,372,160
Committed	-	-	-	1,644,911	84,234	1,729,145
Assigned	2,764,964	-	-	-	-	2,764,964
Unassigned	8,810,489	-	-	-	-	8,810,489
Total Fund Balances	11,678,587	411,248	2,327,029	1,644,911	1,830,578	17,892,353
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,502,694	\$ 1,741,548	\$ 2,469,786	\$ 3,389,195	\$ 2,992,884	\$ 24,096,107

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, 2016

Total Governmental Funds Balance	\$ 17,892,353
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Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds	42,791,618
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:

Delinquent Property taxes	\$ 61,782	
Municipal income taxes	800,310	
Special assessments	1,606,651	
Intergovernmental	249,574	
Charges for services	219	
Total		2,718,536

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.	(65,777)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	3,886,158	
Deferred Inflows - Pension	(302,092)	
Net Pension Liability	(14,432,576)	
Total		(10,848,510)

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	(3,179,748)	
Special assessment bonds	(1,475,251)	
Unamortized bond premiums	(160,822)	
Deferral of loss on refunding	61,400	
OPWC Loan	(1,928,309)	
Compensated absences	(1,385,596)	
Bond anticipation notes	(4,000,000)	
Total		(12,068,326)

Net Position of Governmental Activities	\$ 40,419,894
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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 - Governmental Funds For the Year Ended December 31, 2016

	Special		General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
	General	Assessment				
	Fund	Bond Retirement				
REVENUES						
Property Taxes	\$ 726,471	\$ -	\$ 201,724	\$ -	\$ 528,349	\$ 1,456,544
Municipal Income Taxes	11,704,582	-	949,020	-	-	12,653,602
Other Taxes	-	-	1,177	-	24,667	25,844
Intergovernmental	220,470	-	8,957	816,918	527,127	1,573,472
Interest	32,832	-	-	79,211	19	112,062
Fees, Licenses, and Permits	389,442	-	-	-	-	389,442
Fines and Forfeitures	-	-	-	-	573	573
Charges for Services	567,757	-	-	103,124	262,191	933,072
Contributions and Donations	9,908	-	-	-	-	9,908
Special Assessments	10,173	704,635	-	-	269,962	984,770
All Other Revenues	245,308	-	227	6,541	78,661	330,737
Total Revenues	13,906,943	704,635	1,161,105	1,005,794	1,691,549	18,470,026
EXPENDITURES						
Security of Persons and Property	5,950,396	-	-	107,154	806,513	6,864,063
Public Health Services	42,741	-	-	-	-	42,741
Leisure Time Activities	45,253	-	-	39,185	524,140	608,578
Community Environment	119,853	-	-	-	9,915	129,768
Basic Utility Services	2,033,767	-	-	-	-	2,033,767
Transportation	-	-	-	528,181	656,958	1,185,139
General Government	2,390,447	6,296	27,352	-	-	2,424,095
Capital Outlay	-	-	-	1,253,796	-	1,253,796
Debt Service:						
Principal Retirement	-	582,113	716,030	-	-	1,298,143
Interest and Fiscal Charges	-	156,299	93,399	16,167	-	265,865
Total Expenditures	10,582,457	744,708	836,781	1,944,483	1,997,526	16,105,955
Excess of Revenues (Under) Expenditures	3,324,486	(40,073)	324,324	(938,689)	(305,977)	2,364,071
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	8,537	-	-	-	-	8,537
Bond Anticipation Notes	-	-	-	4,000,000	-	4,000,000
OPWC Loans Issued	-	-	-	161,509	-	161,509
Premium on Debt Issuance	-	-	47,600	-	-	47,600
Transfers In	-	-	50,000	1,400,000	620,000	2,070,000
Transfers Out	(1,970,000)	-	-	(50,000)	(50,000)	(2,070,000)
Total Other Financing Sources (Uses)	(1,961,463)	-	97,600	5,511,509	570,000	4,217,646
Net Change in Fund Balances	1,363,023	(40,073)	421,924	4,572,820	264,023	6,581,717
Fund Balances - Beginning of Year	10,319,665	451,321	1,905,105	(2,927,909)	1,586,400	11,334,582
Increase (Decrease) in Inventory	(4,101)	-	-	-	(19,845)	(23,946)
Fund Balances - End of Year	\$ 11,678,587	\$ 411,248	\$ 2,327,029	\$ 1,644,911	\$ 1,830,578	\$ 17,892,353

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, 2016

Net Change in Fund Balances-Total Governmental Funds	6,581,717
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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 capital outlay exceeded depreciation in the current period.

Capital Outlay	1,253,796	
Depreciation	(1,954,249)	
Total		(700,453)

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. (120,225)

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

Delinquent property taxes	(7,690)	
Municipal income taxes	(87,012)	
Special assessments	(668,533)	
Intergovernmental	(23,306)	
Charges for services	(33,787)	
Total		(820,328)

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 loans, notes, and premiums. (4,209,109)

Repayment of debt principal expenditures in the Governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. 1,298,143

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,055,895

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,954,404)

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	(267,355)	
Accrued interest on bonds	(38,602)	
Amortization of bond premiums	42,160	
Amortization of loss on refunding	(12,280)	
Change in inventory	(23,946)	
Total		(300,023)

Change in Net Position of Governmental Activities	<u><u>831,213</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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$ 681,204	\$ 726,723	\$ 726,471	\$ (252)
Municipal Income Taxes	10,772,628	11,492,471	11,488,487	(3,984)
Intergovernmental	201,383	214,839	214,765	(74)
Interest	24,885	26,548	26,539	(9)
Fees, Licenses, and Permits	385,944	411,734	411,591	(143)
Charges for Services	530,074	565,494	565,298	(196)
Contributions and Donations	9,291	9,911	9,908	(3)
Special Assessments	9,539	10,177	10,173	(4)
All Other Revenues	230,023	245,393	245,308	(85)
Total Revenues	12,844,970	13,703,290	13,698,540	(4,750)
<u>Expenditures</u>				
Current:				
Security of Persons & Property	6,834,437	6,834,437	6,227,117	607,320
Public Health Services	50,691	50,691	43,571	7,120
Leisure Time Activities	46,922	55,705	48,269	7,436
Community Environment	155,187	155,187	121,700	33,487
Basic Utility Services	2,247,509	2,287,009	2,130,211	156,798
General Government	2,686,660	2,701,660	2,495,427	206,233
Total Expenditures	12,021,406	12,084,689	11,066,295	1,018,394
Excess of Revenues Over (Under) Expenditures	823,564	1,618,601	2,632,245	1,013,644
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	-	-	4,750	4,750
Transfers Out	(2,020,000)	(2,020,000)	(1,970,000)	50,000
Total Other Financing Sources (Uses)	(2,020,000)	(2,020,000)	(1,965,250)	54,750
Net Change in Fund Balance	(1,196,436)	(401,399)	666,995	1,068,394
Fund Balance - Beginning of Year	8,530,973	8,530,973	8,530,973	-
Prior Year Encumbrances Appropriated	279,261	279,261	279,261	-
Fund Balance - End of Year	\$ 7,613,798	\$ 8,408,835	\$ 9,477,229	\$ 1,068,394

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, 2016

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 256,253
Accounts Receivable	13,670
Total Assets	<u>\$ 269,923</u>
Liabilities	
Deposits Held and Due to Others	259,923
Due to General Fund	10,000
Total Liabilities	<u>\$ 269,923</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, 2016

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 Community Partnership on Aging Council of Governments, the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 18 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.

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, 2016

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, 2016

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 are 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.

General Bond Retirement Fund – The General Bond Retirement Fund accounts for and reports restricted taxes for the payment of principal and interest and fiscal charges on debt.

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, 2016

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, 2016

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 6). 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 and pension 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. The deferred outflows of resources related to pension are explained in Note 11.

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, pension, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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 charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

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

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

During 2016, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), non-negotiable certificates of deposits, a repurchase agreement, and municipal bonds. The City's investment in State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Equity in Pooled Cash and Investments (Continued)

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$32,832.

F. Materials and Supplies Inventory

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

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

Inventory consists of expendable supplies held for consumption.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

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

<u>Description</u>	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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

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

K. Accrued Liabilities and Long-Term Obligations

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2016.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Budgetary Data (Continued)

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 2016, 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.

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.

R. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP).

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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	\$ 1,363,023
Increase (Decrease) Due to:	
Revenue Accruals	(212,190)
Expenditure Accruals	(286,221)
Adjustment for Encumbrances	(197,617)
Budgetary Basis	<u>\$ 666,995</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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, 2016, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

At December 31, 2016, the carrying amount of the City's deposits was \$1,557,937. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2016, \$795,733 of the City's bank balance was covered by Federal Depository Insurance, and \$762,204 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

C. Investments

The City has a formal investment policy and utilizes a pooled investment concept for all its funds to maximize its investment program. STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identify the City's recurring fair value measurement as of December 31, 2016. As previously discussed Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 inputs). As of December 31, 2016, fair value was \$89,756 above the City's net cost for investments.

D. Interest Rate Risk

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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.

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 47.5 percent of the City’s total investments. The remaining investments of the City, negotiable certificates of deposit, STAR Ohio, and municipal bond, represent 24.8 percent, 4.4 percent, and 23.3 percent, 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	\$ 702,378	AAAm	\$ 702,378	\$ -
Negotiable CD's	4,008,025	N/A	3,002,383	1,005,642
Municipal Bond	3,750,470	N/A	3,000,455	750,015
Repurchase Agreement	7,650,000	N/A	7,650,000	-
Total Investments	16,110,873		<u>\$ 14,355,216</u>	<u>\$ 1,755,657</u>
Carrying Amount of Deposits	1,557,937			
Petty Cash	700			
Total Cash and Investments	<u>\$ 17,669,510</u>			

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 6: RECEIVABLES

Receivables at December 31, 2016, 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 2016 for real and public property taxes represents collections of 2015 taxes. Property tax payments received during 2016 for tangible personal property (other than public utility property) are for 2016 taxes.

2016 real property taxes are levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2016 real property taxes are collected in and intended to finance 2017.

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. 2016 public utility property taxes which became a lien at December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

Real Property	\$381,718,230
Public Utility Tangible Property	<u>3,620,850</u>
Total	<u>\$385,339,080</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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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, 2016, and for which there is an enforceable legal claim. In the General, General Obligation Bond Retirement, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments**

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

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

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed 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, 2016, special assessments expected to be collected in more than one year amount to \$1,646,370, including delinquent special assessments of \$225,490.

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	\$ 160,804
Local Government	40,839
Homestead and Rollback Reimbursement	89,583
Auto Registration	35,207
Permissive Tax	5,423
Lyndhurst Municipal Court	14,832
Miscellaneous Grants	<u>5,280</u>
Total Intergovernmental Receivables	<u>\$ 351,968</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 7: 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	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepaid Items	\$ 80,132	\$ -	\$ -	\$ -	\$ -	\$ 80,132
Inventories	23,002	-	-	-	112,461	135,463
<i>Total Nonspendable</i>	<u>103,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,461</u>	<u>215,595</u>
<i>Restricted for</i>						
Police Pension	-	-	-	-	136,520	136,520
Fire Pension	-	-	-	-	139,324	139,324
Parks and Recreation	-	-	-	-	416,325	416,325
Other Law Enforcement	-	-	-	-	67,217	67,217
Streets and Highways	-	-	-	-	696,803	696,803
Street Lighting	-	-	-	-	132,542	132,542
FEMA Fire Assistance	-	-	-	-	14,186	14,186
NOPEC POC Grant	-	-	-	-	2,001	2,001
Other Grants	-	-	-	-	2,067	2,067
Debt Service	-	411,248	2,327,029	-	-	2,738,277
Issue II	-	-	-	-	26,898	26,898
<i>Total Restricted</i>	<u>-</u>	<u>411,248</u>	<u>2,327,029</u>	<u>-</u>	<u>1,633,883</u>	<u>4,372,160</u>
<i>Committed to</i>						
Capital Improvements	-	-	-	1,644,911	-	1,644,911
Parks and Recreation Improvements	-	-	-	-	50,212	50,212
Street Trees	-	-	-	-	34,022	34,022
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,644,911</u>	<u>84,234</u>	<u>1,729,145</u>
<i>Assigned to</i>						
Purchases on Order	1,094,936	-	-	-	-	1,094,936
Fiscal Year 2017 Appropriations	1,670,028	-	-	-	-	1,670,028
<i>Total Assigned</i>	<u>2,764,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,764,964</u>
<i>Unassigned</i>						
	8,810,489	-	-	-	-	8,810,489
Total Fund Balances	<u>\$ 11,678,587</u>	<u>\$ 411,248</u>	<u>\$ 2,327,029</u>	<u>\$ 1,644,911</u>	<u>\$ 1,830,578</u>	<u>\$ 17,892,353</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 8: INTERFUND TRANSFERS AND BALANCES

A. Interfund Transfers

Transfers made during the year end December 31, 2016 were as follow:

Transfers Out	Transfers In			Total
	General Bond Retirement	Capital Improvement	Nonmajor Governmental Funds	
General	\$ -	\$ 1,350,000	\$ 620,000	\$ 1,970,000
Capital Improvement	50,000	-	-	50,000
Nonmajor Governmental Funds	-	50,000	-	50,000
Total	\$ 50,000	\$ 1,400,000	\$ 620,000	\$ 2,070,000

The General Fund transferred \$315,000 to the Police Pension Fund and \$305,000 to the Fire Pension Fund for pension obligation payments. In addition, the General Fund transferred \$1,350,000 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.

B. Interfund Balances

The Due from Agency Fund and Due to General Fund of \$10,000 in the Agency Funds and General Fund was due to the city expending money out for equipment repairs that will be paid by another Agency as a reimbursement. As of December 31, 2016 the City had not been reimbursed.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2016 follows:

	Balance 1/1/2016	Additions	Disposals	Balance 12/31/2016
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Construction in Progress	2,853,500	1,142,363	(2,853,500)	1,142,363
Total Capital Assets Not Being Depreciated	4,533,160	1,142,363	(2,853,500)	2,822,023
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,200,034	89,058	-	2,289,092
Buildings	7,602,806	7,701	-	7,610,507
Machinery and Equipments	2,304,825	72,426	(10,099)	2,367,152
Furniture and Fixtures	46,991	14,425	-	61,416
Vehicles	3,050,908	86,731	(306,784)	2,830,855
Infrastructures				
Roads	23,400,567	2,694,592	(108,368)	25,986,791
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	79,961,905	2,964,933	(425,251)	82,501,587
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,186,639)	(133,593)	-	(1,320,232)
Buildings	(4,905,347)	(214,456)	-	(5,119,803)
Machinery and Equipments	(1,330,702)	(134,395)	8,248	(1,456,849)
Furniture and Fixtures	(43,076)	(1,779)	-	(44,855)
Vehicles	(1,614,503)	(255,839)	188,410	(1,681,932)
Infrastructures				
Roads	(10,810,811)	(466,178)	108,368	(11,168,621)
Water Mains	(6,311,786)	(188,163)	-	(6,499,949)
Sanitary Sewers	(6,252,103)	(251,804)	-	(6,503,907)
Storm Sewers	(8,183,546)	(298,563)	-	(8,482,109)
Culverts	(119,196)	(3,868)	-	(123,064)
Bridges	(64,965)	(4,331)	-	(69,296)
Traffic Signals	(60,095)	(1,280)	-	(61,375)
Total Accumulated Depreciation	(40,882,769)	(1,954,249)	305,026	(42,531,992)
<i>Total Capital Assets, being Depreciated, Net</i>	<i>39,079,136</i>	<i>1,010,684</i>	<i>(120,225)</i>	<i>39,969,595</i>
Governmental Activities Capital Assets, Net	\$ 43,612,296	\$ 2,153,047	\$ (2,973,725)	\$ 42,791,618

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 9: **CAPITAL ASSETS** (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 94,138
Security of Persons and Property	309,515
Basic Utilities	742,398
Community Environment	1,334
Leisure Time Activities	200,700
Transportation	606,164
Total Depreciation Expense	<u>\$ 1,954,249</u>

NOTE 10: **COMPENSATED ABSENCES**

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be 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 11: **PENSION PLAN**

A. **Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

A. **Net Pension Liability** (Continued)

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

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

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

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

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

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

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

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

	<u>State and Local</u>
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions was \$308,588 for 2016. Of this amount, \$30,708 is reported as intergovernmental payable.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

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

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25	12.25
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$747,307 for 2016. Of this amount, \$73,913 is reported as intergovernmental payable.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

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

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.020421%	0.0877892%	0.0859751%	
Proportion of the Net Pension Liability Current Measurement Date	0.020318%	0.0832094%	0.0864334%	
Change in Proportionate Share	-0.000103%	-0.004580%	0.000458%	
Proportionate Share of the Net Pension Liability	\$ 3,519,331	\$ 5,352,922	\$ 5,560,323	\$ 14,432,576
Pension Expense	\$ 489,661	\$ 702,573	\$ 762,170	\$ 1,954,404

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

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

	OPERS	OP&F Police	OP&F Fire	Total
Deferred Outflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$1,034,465	\$871,250	\$905,008	\$2,810,723
Changes in proportion and differences between City contributions and proportionate share of contributions	0	0	19,540	19,540
City contributions subsequent to the measurement date	308,588	369,504	377,803	1,055,895
Total Deferred Outflows of Resources	<u>\$1,343,053</u>	<u>\$1,240,754</u>	<u>\$1,302,351</u>	<u>\$3,886,158</u>
Deferred Inflows of Resources				
Differences between expected and actual experience	\$68,000	\$15,031	\$15,613	\$98,644
Changes in proportion and differences between City contributions and proportionate share of contributions	8,196	195,252	0	203,448
Total Deferred Inflows of Resources	<u>\$76,196</u>	<u>\$210,283</u>	<u>\$15,613</u>	<u>\$302,092</u>

\$1,055,895 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F Police	OP&F Fire	Total
Year Ending December 31:				
2017	\$222,465	\$188,907	\$239,070	\$650,442
2018	239,005	188,907	239,070	\$666,982
2019	262,697	188,905	239,071	\$690,673
2020	234,102	142,463	190,825	\$567,390
2021	0	(40,517)	757	(39,760)
Thereafter	0	(7,698)	142	(7,556)
Total	<u>\$958,269</u>	<u>\$660,967</u>	<u>\$908,935</u>	<u>\$2,528,171</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

The most recent experience study was completed for the five year period ended December 31, 2010.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$5,607,158	\$3,519,331	\$1,758,320

F. **Actuarial Assumptions – OP&F**

OP&F’s total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
 Total	 120.00 %	

* levered 2x

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

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

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$14,393,034	10,913,245	\$7,965,417

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 12: **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 benefit pension plan that has elements of both a defined benefit and a defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East 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 of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2016.

As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.00 percent for both plans. The Board 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 employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.0 percent. The City's actual employer contributions for December 31, 2016, 2015 and 2014 which were used to fund post-employment benefits were \$54,423, \$52,859, and \$51,994, respectively; 100 percent has been contributed for 2016, 2015 and 2014.

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 benefit 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.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, 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, 2016 thru December 31, 2016. 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.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$9,724 and \$8,038 for the year ended December 31, 2016, \$10,387 and \$8,581 for the year ended December 31, 2015, and \$10,503 and \$8,332 for the year ended December 31, 2014, respectively; 90.14 percent and 90.53 percent has been contributed for 2015 and 100 percent for 2014 and 2013.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 13: SHORT-TERM OBLIGATIONS

The City's note activity, including the amount outstanding and the interest rate, is as follows:

	Principal Outstanding 1/1/2016	Additions	Deletions	Principal Outstanding 12/31/16
<u>Governmental Activities</u>				
<i>Bond Anticipation Notes</i>				
Various Purpose Income Tax				
Anticipation Notes, Series 2015, 4,700,000, 1.0%	\$ 4,700,000	\$ -	\$(4,700,000)	\$ -
Unamortized Note Premium	12,938	-	(12,938)	-
Various Purpose Income Tax				
Anticipation Notes, Series 2016, 5,500,000, 1.0%	-	1,500,000	-	\$1,500,000
Unamortized Note Premium	-	17,850	(9,619)	\$8,231
<i>Total Bond Anticipation Notes</i>	<u>\$ 4,712,938</u>	<u>\$ 1,517,850</u>	<u>\$(4,722,557)</u>	<u>\$ 1,508,231</u>

In 2016, the City issued \$5,500,000 in Various Purpose Improvement Notes. The Notes were used to retire the 2015 Various Purpose Improvement Notes that matured during 2016. These Notes will mature on June 15, 2017. \$1,500,000 of these notes are considered short-term and the remaining \$4,000,000 are considered long-term.

The notes are backed by the full faith and credit of the City and mature within one year. The note liabilities are reflected in the funds which received the proceeds. The premium and issuance costs are recorded in the General Bond Retirement Fund.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2016, are as follows:

	Principal Outstanding 1/1/2016	Additions	Deletions	Principal Outstanding 12/31/2016	Amounts Due in One Year
<u>Governmental Activities</u>					
<i><u>Bond Anticipation Notes</u></i>					
Various Purpose Income Tax Anticipation Notes, Series 2016, 5,500,000, 1.0%	\$ -	\$ 4,000,000	\$ -	\$ 4,000,000	\$ 4,000,000
Unamortized Note Premium	-	47,600	(25,651)	21,949	-
<i>Total Bond Anticipation Notes</i>	<u>-</u>	<u>4,047,600</u>	<u>(25,651)</u>	<u>4,021,949</u>	<u>4,000,000</u>
<i><u>General Obligation Bonds</u></i>					
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	52,019	-	(12,271)	39,748	13,147
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	1,125,000	-	(80,000)	1,045,000	85,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125%	2,760,000	-	(665,000)	2,095,000	655,000
<i>Total General Obligation Bonds</i>	<u>3,937,019</u>	<u>-</u>	<u>(757,271)</u>	<u>3,179,748</u>	<u>753,147</u>
<i><u>Special Assessment Bonds (a)</u></i>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	247,980	-	(57,729)	190,251	61,853
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	1,565,000	-	(280,000)	1,285,000	295,000
<i>Total Special Assessment Bonds</i>	<u>1,812,980</u>	<u>-</u>	<u>(337,729)</u>	<u>1,475,251</u>	<u>356,853</u>
<u>Governmental Activities (Continued)</u>					
<i><u>Ohio Public Works Commission</u></i>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	\$ 410,160	\$ -	\$ (82,031)	\$ 328,129	\$ 82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	264,085	-	(48,016)	216,069	48,015
1998 \$145,238 Millridge Water Main Replacement, 0%	32,678	-	(7,262)	25,416	7,262
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	223,185	-	(34,337)	188,848	34,337
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	488,205	-	(31,497)	456,708	31,497
2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0%	551,630	135,170	-	686,800	34,340
2015 \$1,703,770 Highland Road Water Main Replacement, 0%	-	26,339	-	26,339	-
<i>Total Ohio Public Works Commission</i>	<u>1,969,943</u>	<u>161,509</u>	<u>(203,143)</u>	<u>1,928,309</u>	<u>237,482</u>

(Continued)

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Principal Outstanding 1/1/2016	Additions	Deletions	Principal Outstanding 12/31/2016	Amounts Due in One Year
<i>Other Long-term Liabilities</i>					
Unamortized Bond Premium	155,382	-	(16,509)	138,873	-
Net Pension Liability					
OPERS	2,463,001	1,056,330	-	3,519,331	-
OP&F - Police	4,547,845	805,077	-	5,352,922	-
OP&F - Fire	4,453,869	1,106,454	-	5,560,323	-
Total Net Pension Liability	11,464,715	2,967,861	-	14,432,576	-
Compensated Absences	1,118,241	793,351	(525,996)	1,385,596	574,980
<i>Total Other Long-term Liabilities</i>	12,738,338	3,761,212	(542,505)	15,957,045	574,980
Total Governmental Long-Term Liabilities	<u>\$ 20,458,280</u>	<u>\$ 7,970,321</u>	<u>\$ (1,866,299)</u>	<u>\$ 26,562,302</u>	<u>\$ 5,922,462</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.

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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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

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.

In September 2014, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$686,800. These funds are being used for Miner/Highland Intersection and Road Rehabilitation project which was started in 2015. The debt is a zero percent interest loan over twenty years.

In 2015, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$1,703,770. These funds are being used for Highland Road Water Main Replacement project which was started in 2016. The debt is a zero percent interest loan over twenty years. As of December 31, 2015, the loan balance for the portion of the project completed was \$26,339. An amortization schedule has not been prepared by OPWC since project is still ongoing.

The 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2016, the City's overall debt margin was \$34,350,079 with an unvoted debt margin of \$15,083,125.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2016, from the general resources of the City are as follows:

Year	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 753,147	\$ 107,226	\$ 356,853	\$ 82,387
2018	413,147	89,146	371,854	62,730
2019	408,454	76,940	396,544	42,092
2020	425,000	64,038	350,000	19,950
2021	365,000	49,388	-	-
2022-2026	815,000	105,532	-	-
2027-2031	-	-	-	-
2030-2031	-	-	-	-
2032-2036	-	-	-	-
Totals	<u>\$ 3,179,748</u>	<u>\$ 492,270</u>	<u>\$ 1,475,251</u>	<u>\$ 207,159</u>

Year	<u>OPWC Loans</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 237,482	\$ -	\$ 1,347,482	\$ 189,613
2018	237,482	-	1,022,483	151,876
2019	237,482	-	1,042,480	119,032
2020	233,851	-	1,008,851	83,988
2021	124,180	-	489,180	49,388
2022-2026	346,354	-	1,161,354	105,532
2027-2031	313,437	-	313,437	-
2032-2036	171,700	-	171,700	-
Totals	<u>\$ 1,901,968</u>	<u>\$ -</u>	<u>\$ 6,556,967</u>	<u>\$ 699,429</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, 2016

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 2016, the City of Highland Heights paid \$62,535 in premiums from the General Fund, which represents 4.79 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

NOTE 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, 2016

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

The medical and prescription benefits are provided through United Healthcare from January 1 through December 31, 2016. 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 \$411.11 for single coverage; \$982.29 for employee and spouse coverage; \$893.62 for employee and children coverage; and \$1,440.62 for family coverage. The monthly premium for dental and vision benefits is \$33.10 for single coverage and \$104.00 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: **JOINTLY GOVERNED ORGANIZATIONS**

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a council of government 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 2016, the City contributed \$90,586. To obtain a copy of the Partnership'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, 2016

NOTE 18: **JOINTLY GOVERNED ORGANIZATION** (Continued)

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 contributed \$14,000 to ESCOG in 2016.

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 2016. Financial information can be obtained by contacting NOPEC, 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, 2016

NOTE 18: **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 19: **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, 2016, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 197,617
Capital Improvement	2,935,407
Nonmajor Funds:	
Special Revenue Funds	<u>107,491</u>
Total	<u><u>\$ 3,240,515</u></u>

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Three Years (1)

Traditional Plan	2015	2014	2013
City's Proportion of the Net Pension Liability	0.020318%	0.204210%	0.204210%
City's Proportionate Share of the Net Pension Liability	\$3,519,331	\$2,463,001	\$2,407,370
City's Covered-Employee Payroll	\$2,528,742	\$2,511,908	\$2,749,315
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	139.17%	98.05%	87.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Three Years (1)

Police	2015	2014	2013
City's Proportion of the Net Pension Liability	0.0832094%	0.0877892%	0.0877892%
City's Proportionate Share of the Net Pension Liability	\$5,352,922	\$4,547,845	\$4,275,609
City's Covered-Employee Payroll	\$1,907,674	\$1,932,211	\$2,370,598
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	280.60%	235.37%	180.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%
Fire	2015	2014	2013
City's Proportion of the Net Pension Liability	0.0864334%	0.0859751%	0.0859751%
City's Proportionate Share of the Net Pension Liability	\$5,560,323	\$4,453,869	\$4,187,257
City's Covered-Employee Payroll	\$1,585,928	\$1,533,106	\$1,767,766
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	350.60%	290.51%	236.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

(1) Information prior to 2013 is not available.

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

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions</u>				
Traditional Plan	308,588	\$303,449	\$301,429	\$357,411
Total Required Contributions	\$308,588	\$303,449	\$301,429	\$357,411
Contributions in Relation to the Contractually Required Contribution	(\$308,588)	(\$303,449)	(\$301,429)	(\$357,411)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>				
Traditional Plan	\$2,571,568	\$2,528,742	\$2,511,908	\$2,749,315
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>				
Traditional Plan	12.00%	12.00%	12.00%	13.00%

(1) – Information prior to 2013 is not available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Contractually Required Contributions</u>										
Police	\$369,504	\$362,458	\$367,120	\$372,895	\$355,123	\$354,841	\$346,840	\$336,563	\$323,600	\$317,093
Fire	\$377,803	\$372,693	\$360,280	\$357,619	\$358,019	\$353,068	\$315,439	\$311,313	\$308,812	\$299,481
Total Required Contributions	\$747,307	\$735,151	\$727,400	\$730,514	\$713,142	\$707,909	\$662,279	\$647,876	\$632,412	\$616,574
Contributions in Relation to the Contractually Required Contribution	(\$747,307)	(\$735,151)	(\$727,400)	(\$730,514)	(\$713,142)	(\$707,909)	(\$662,279)	(\$647,876)	(\$632,412)	(\$616,574)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>City's Covered-Employee Payroll</u>										
Police	\$1,944,758	\$1,907,674	\$1,932,211	\$2,370,598	\$2,785,278	\$2,783,067	\$2,720,314	\$2,639,710	\$2,538,039	\$2,487,004
Fire	\$1,607,672	\$1,585,928	\$1,533,106	\$1,767,766	\$2,075,472	\$2,046,771	\$1,828,632	\$1,804,713	\$1,790,214	\$1,736,122
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	[2]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	[2]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

[2] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

City of Highland Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2016

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015 and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015 and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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OHIO AUDITOR OF STATE KEITH FABER



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

City of Highland Heights
Cuyahoga County
5827 Highland Road
Highland Heights, Ohio 44143

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, (the City) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 7, 2019.

Internal Control Over Financial Reporting

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

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

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

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
Phone: 216-787-3665 or 800-626-2297
www.ohioauditor.gov

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 7, 2019

OHIO AUDITOR OF STATE KEITH FABER



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
APRIL 2, 2019**