

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

AUDIT REPORT

**FOR THE BIENNIAL FISCAL YEARS ENDED
DECEMBER 31, 2021 AND DECEMBER 31, 2020**

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

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

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

We have reviewed the *Independent Auditor's Report* of the City of Highland Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2020 through December 31, 2021. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

July 01, 2022

This page intentionally left blank.

**CITY OF HIGHLAND HEIGHTS
 CUYAHOGA COUNTY, OHIO
 AUDIT REPORT
 FOR THE BIENNIAL FISCAL YEARS ENDED
 DECEMBER 31, 2021 AND DECEMBER 31, 2020**

TABLE OF CONTENTS

	<u>PAGE</u>
Audit Report for the Fiscal Year Ended December 31, 2021:	
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	5-14
Basic Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual - General Fund	21
Statement of Fiduciary Net Position – Custodial Funds	22
Statement of Changes in Fiduciary Net Position – Custodial Fund	23
Notes to the Basic Financial Statements	24-76
Required Supplementary Information:	
Schedule of the City’s Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Last Eight Years	77-78
Ohio Police and Fire Pension Fund – Last Eight Years	79-80
Schedule of the City’s Contributions – Pension – Ohio Public Employees Retirement System – Last Nine Years	81-82
Ohio Police and Fire Pension Fund – Last Ten Years	83-84
Schedule of the City’s Proportionate Share of the Net OPEB Liability/Asset – Ohio Public Employees Retirement System – Last Five Years	85
Schedule of the City’s Proportionate Share of the Net OPEB Liability – Ohio Police and Fire Pension Fund – Last Five Years	86
Schedule of the City’s Contributions – OPEB – Ohio Public Employees Retirement System – Last Seven Years	87-88
Ohio Police and Fire Pension Fund – Last Ten Years	89-90
Notes to the Required Supplementary Information	91-92
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	93-94
Schedule of Prior Year Findings and Recommendations	95

**CITY OF HIGHLAND HEIGHTS
 CUYAHOGA COUNTY, OHIO
 AUDIT REPORT
 FOR THE BIENNIAL FISCAL YEARS ENDED
 DECEMBER 31, 2021 AND DECEMBER 31, 2020**

TABLE OF CONTENTS

	<u>PAGE</u>
Audit Report for the Fiscal Year Ended December 31, 2020:	
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	5-14
Basic Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual - General Fund	21
Statement of Fiduciary Net Position – Fiduciary Funds	22
Statement of Changes in Fiduciary Net Position – Custodial Fund	23
Notes to the Basic Financial Statements	24-85
Required Supplementary Information:	
Schedule of the City’s Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Last Seven Years	86
Ohio Police and Fire Pension Fund – Last Seven Years	87
Schedule of the City’s Contributions – Pension – Ohio Public Employees Retirement System – Last Eight Years	88-89
Ohio Police and Fire Pension Fund – Last Ten Years	90-91
Schedule of the City’s Proportionate Share of the Net OPEB Liability – Ohio Public Employees Retirement System – Last Four Years	92
Ohio Police and Fire Pension Fund – Last Four Years	93
Schedule of the City’s Contributions – OPEB – Ohio Public Employees Retirement System – Last Six Years	94
Ohio Police and Fire Pension Fund – Last Ten Years	95-96
Notes to the Required Supplementary Information	97-98
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	99-100
Schedule of Prior Year Findings and Recommendations	101

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2021**

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

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	5-14
Basic Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual - General Fund	21
Statement of Fiduciary Net Position – Custodial Funds	22
Statement of Changes in Fiduciary Net Position – Custodial Fund	23
Notes to the Basic Financial Statements	24-76
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Last Eight Years	77-78
Ohio Police and Fire Pension Fund – Last Eight Years	79-80
Schedule of the City's Contributions – Pension – Ohio Public Employees Retirement System – Last Nine Years	81-82
Ohio Police and Fire Pension Fund – Last Ten Years	83-84
Schedule of the City's Proportionate Share of the Net OPEB Liability/Asset – Ohio Public Employees Retirement System – Last Five Years	85
Schedule of the City's Proportionate Share of the Net OPEB Liability – Ohio Police and Fire Pension Fund – Last Five Years	86
Schedule of the City's Contributions – OPEB – Ohio Public Employees Retirement System – Last Seven Years	87-88
Ohio Police and Fire Pension Fund – Last Ten Years	89-90
Notes to the Required Supplementary Information	91-92
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	93-94
Schedule of Prior Year Findings and Recommendations	95

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 as of December 31, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 21 to the basic financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



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

June 7, 2022

This page intentionally left blank.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

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, 2021. 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 2021 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 \$34,227,440.
- The net position increased \$732,022 from the prior year.
- Total liabilities and deferred inflows of resources increased by \$3,026,480 from the prior year.
- The unassigned fund balance for the General Fund was \$9,012,091 or 65.47 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).

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

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability and net OPEB liability/Asset.

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 a balance of \$33,495,418 in 2020 to \$34,227,440 in 2021 or 2.19 percent from the prior year.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

The table below provides a summary of the City's net position for 2021 and 2020.

Table 1 - Net Position

	Governmental Activities	
	2021	2020
<u>Assets</u>		
Current and Other Assets	\$ 25,257,249	\$ 20,310,937
Capital Assets	42,063,864	42,641,878
Net OPEB Asset	336,950	-
Total Assets	67,658,063	62,952,815
<u>Deferred Outflows of Resources</u>		
Deferral on Refunding	-	12,280
Pension	2,612,210	2,596,406
OPEB	1,458,551	2,408,821
Total Deferred Outflows of Resources	4,070,761	5,017,507
<u>Liabilities</u>		
Long-term Liabilities		
Due within one year	1,048,852	3,113,346
Due in More than One Year:		
Net Pension Liability	14,755,713	15,513,525
Net OPEB Liability	1,852,685	4,349,252
Other Amounts	12,252,199	4,284,356
Other Liabilities	1,090,907	974,323
Total Liabilities	31,000,356	28,234,802
<u>Deferred Inflows of Resources</u>		
Property Tax	1,626,656	1,468,223
Pension	2,545,301	2,263,888
OPEB	2,329,071	2,507,991
Total Deferred Inflows of Resources	6,501,028	6,240,102
<u>Net Position</u>		
Net Investment in Capital Assets	36,134,610	36,925,970
Restricted	4,677,330	3,676,486
Unrestricted	(6,584,500)	(7,107,038)
Total Net Position	\$ 34,227,440	\$ 33,495,418

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2021 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement 27." The City previously adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability/Asset to the reported net position and subtracting deferred outflows related to pension and OPEB and net OPEB asset.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2021, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$34,227,440. Due to the recording of GASB 68 and GASB 75, the City's unrestricted net position was a negative \$6,584,500. A portion of the City's net position, \$4,677,330, 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 62.17 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, 2021, was \$36,134,610 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.

Total assets increased due to cash and cash equivalents from the debt issuance performed by the City. The decrease in deferred outflows of resources, increase in deferred inflows of resources and Net OPEB Asset, and decrease in net pension liability and net OPEB liability is primarily due to the effects on pension and OPEB of recording GASB 68 and GASB 75. The increase in Liabilities – Other Amounts is related to the issuance for the aforementioned debt.

This space is intentionally left blank

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

The table below shows the changes in net position for fiscal year 2021 and 2020.

	Table 2 - Change in Net Position	
	Governmental Activities	
	2021	2020
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 2,112,428	\$ 3,178,174
Operating Grants and Contributions	803,053	1,085,369
Capital Grants and Contributions	414,882	616,433
General Revenues:		
Property Taxes	1,592,448	1,577,174
Municipal Income Taxes	11,460,629	11,045,879
Other Taxes	59,663	60,898
Grants and Entitlements	330,350	309,059
Other	205,064	262,996
Total Revenues	16,978,517	18,135,982
<u>Program Expenses</u>		
Security of Persons and Property	8,445,376	8,913,189
Public Health Services	71,296	86,898
Leisure Time Activities	652,063	707,075
Community Environment	62,127	85,420
Basic Utility Services	2,317,098	3,406,465
Transportation	1,808,421	3,231,909
General Government	2,733,483	3,442,257
Interest and Fiscal Charges	156,631	97,505
Total Program Expenses	16,246,495	19,970,718
Change in Net Position	732,022	(1,834,736)
Net Position, Beginning of Year	33,495,418	35,330,154
Net Position, End of Year	\$ 34,227,440	\$ 33,495,418

Total revenues decreased in 2021. This is primarily due to a decrease in charges for services relating BWC issuing refunds in 2020 to combat the COVID-19 pandemic. 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 2021, income tax revenue was \$11,460,629. There was an increase of \$414,750 compared to prior year's collections mainly attributable the economy opening back up from the pandemic. The City's second largest revenue source is charges for services. Charges for services decreased by \$1,065,746 or 33.53 percent, which was previously discussed.

The City's next largest revenue source is property taxes. The City's full tax rate for collection year 2021 was 4.00 mills. A mill is \$1.00 for every \$1,000 of assessed valuation.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

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 2021, property taxes revenue was \$1,592,448. There was a decrease in operating grants and contributions due to CARES Act monies received in 2020 and unspent ARPA money is recorded as unearned revenue in 2021. Operating grants and contributions revenue was \$803,053.

The provisions of GASB Statements 68 and 75 require the City to recognize a pension/OPEB adjustment that decreases expenses by \$2,556,220 in 2021, but increased expenses by \$1,126,178 in 2020. As a result, it is difficult to ascertain the true operational cost of services and the changes in cost of service from year to year. The table below shows the total expenses by function with the GASB Statements 68 and 75 pension and OPEB costs removed.

EXPENSES	Governmental Activities	
	2021	2020
Program Expenses:		
Security of persons and property	\$ 8,984,831	\$ 8,009,947
Public health services	71,296	86,898
Leisure time activities	838,155	689,181
Community environment	110,230	82,462
Basic utility services	3,277,228	3,297,000
Transportation	1,820,419	3,229,158
General government	3,541,969	3,352,389
Interest and fiscal charges	156,631	97,505
Total Expenses	\$ 18,800,759	\$ 18,844,540

Total expenses decreased in 2021. This is primarily due to decrease in the area of transportation. The City's decrease in expenses for 2021 was \$43,781 or 0.23 percent as compared to 2020. 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 47.79 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time sworn officers, 4 part-time, and 4 auxiliary officers, 4 full-time and 2 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, 1 assistant chief and 18 full-time, 3 part-time fire fighters/paramedics, and 1 full-time secretary. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

The next largest programs are general government, \$3,541,969 at 18.84 percent, basic utility services, \$3,277,228 at 17.43 percent, transportation, \$1,820,419 at 9.68 percent, and leisure time activities, \$838,155 at 4.46 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

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 \$20,298,718. Of this amount, \$10,184,987 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 \$9,012,091, while the total General Fund balance was \$10,383,045. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned General Fund balance represents 65.47 percent of General Fund expenditures (including other financing uses), while total General Fund balance 75.44 percent of the same amount. In 2021, the fund balance of the City's General Fund increased by \$609,139 when compared to 2020.

The City's General Bond Retirement Fund experienced an increase of \$592,360 in its 2021 fund balance when compared to 2020 primarily due to the City bonding out the previously issued note.

The City's Special Assessment Bond Retirement Fund had a decrease of \$144,188 in its 2021 fund balance when compared to 2020 primarily due to the pay down of special assessment debts.

The City's Capital Improvement Fund balance experienced an increase of \$3,111,856 in 2021 compared to 2020 primarily due to an increase in the City issuing a bond for various capital projects.

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 the final budgeted revenues was \$14,589,570.

The original appropriation (including other financing uses) of \$14,723,006 was increased to \$14,775,936. Even with these adjustments, the actual charges to appropriations (expenditures) were \$731,137 below the final budgeted amounts for the General Fund.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the City had \$42,063,864 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 \$578,014 or 1.36 percent over last year.

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

	Governmental Activities	
	2021	2020
Land	\$ 1,679,660	\$ 1,679,660
Construction-in-progress	871,005	-
Land Improvements	369,919	448,455
Buildings	1,496,800	1,599,797
Machinery and Equipments	1,502,562	1,157,350
Furniture and Fixtures	44,867	48,561
Vehicles	1,223,803	1,482,659
Infrastructures	34,875,248	36,225,396
Total Capital Assets, Net	\$ 42,063,864	\$ 42,641,878

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

Long-Term Debt

The City had \$11,073,629 in outstanding debt at December 31, 2021, compared to \$5,647,757 at December 31, 2020, as shown in Table 4.

Table 4 - Outstanding Long-Term Debt at December 31

	Governmental Activities	
	2021	2020
General Obligation Bonds (Excluding Premiums)	\$ 8,725,000	\$ 1,180,000
Bond Anticipation Notes	-	1,750,000
OPWC Loans	2,348,629	2,717,757
Total Outstanding Debt	\$ 11,073,629	\$ 5,647,757

The City paid \$365,000 on principal for general obligation bonds and \$369,128 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 Bond Anticipation Note was refunded into a General Obligation Bond during 2021.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2021

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, 2021

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 18,901,573
Materials and Supplies Inventory	138,754
Accounts Receivable	74,587
Accrued Interest Receivable	25,322
Intergovernmental Receivable	528,937
Prepaid Items	114,383
Municipal Income Taxes Receivable	2,940,869
Property Taxes Receivable	1,635,646
Special Assessments Receivable	897,178
Nondepreciable Capital Assets	2,550,665
Depreciable Capital Assets	39,513,199
Net OPEB Asset	336,950
Total Assets	67,658,063
DEFERRED OUTFLOWS OF RESOURCES	
Pension	2,612,210
OPEB	1,458,551
Total Deferred Outflows of Resources	4,070,761
LIABILITIES	
Accounts Payable	192,788
Accrued Wages and Benefits	331,291
Intergovernmental Payable	56,263
Accrued Interest Payable	19,544
Retainage Payable	48,428
Unearned Revenue	442,593
Long-term Liabilities:	
Due within One Year	1,048,852
Due in More than One Year:	
Net Pension Liability (see Note 11)	14,755,713
Net OPEB Liability (see Note 12)	1,852,685
Other Amounts	12,252,199
Total Liabilities	31,000,356
DEFERRED INFLOWS OF RESOURCES	
Property Tax	1,626,656
Pension	2,545,301
OPEB	2,329,071
Total Deferred Inflows of Resources	6,501,028
NET POSITION	
Net Investment in Capital Assets	36,134,610
Restricted for:	
Debt Service	1,757,825
Capital Projects	13,819
Street Construction, Maintenance, and Repairs	1,570,361
Parks and Recreation	1,004,959
Other Purposes	330,366
Unrestricted	(6,584,500)
Total Net Position	\$ 34,227,440

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

City of Highland Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2021

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total
Primary Government:					
Governmental activities:					
Security of Persons and Property	\$ 8,445,376	\$ 473,110	\$ 11,202	\$ -	\$ (7,961,064)
Public Health Services	71,296	-	-	-	(71,296)
Leisure Time Activities	652,063	275,500	-	-	(376,563)
Community Environment	62,127	451,277	1,500	414,882	805,532
Basic Utility Services	2,317,098	-	-	-	(2,317,098)
Transportation	1,808,421	335,491	631,829	-	(841,101)
General Government	2,733,483	577,050	158,522	-	(1,997,911)
Interest and Fiscal Charges	156,631	-	-	-	(156,631)
Total Governmental activities	\$ 16,246,495	\$ 2,112,428	\$ 803,053	414,882	(12,916,132)
General Revenues:					
Property Taxes levied for:					
General Purposes					834,298
Debt Service Purpose					153,016
Other Purposes					605,134
Municipal Income Taxes levied for:					
General Purposes					10,658,637
Debt Service Purpose					801,992
Other Taxes					59,663
Grants & Entitlements not restricted to specific programs					330,350
Investment Income					109,322
Gain on Sale of Capital Assets					10,753
All Other Revenues					84,989
Total General Revenues					<u>13,648,154</u>
Change in Net Position					732,022
Net Position- Beginning of Year					<u>33,495,418</u>
Net Position - End of Year					<u><u>\$ 34,227,440</u></u>

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

City of Highland Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2021

	General Fund	General Bond Retirement	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in Pooled Cash and Cash Equivalents	\$ 8,649,179	\$ 917,950	\$ 62,335	\$ 5,807,726	\$ 3,464,383	\$ 18,901,573
Materials and Supplies Inventory	22,462	-	-	-	116,292	138,754
Accrued Interest Receivable	25,322	-	-	-	-	25,322
Accounts Receivable	72,298	-	-	-	2,289	74,587
Interfund Receivable	49,431	-	-	-	-	49,431
Intergovernmental Receivable	108,846	83,083	-	-	337,008	528,937
Prepaid Items	114,089	-	-	-	294	114,383
Municipal Income Taxes Receivable	2,720,304	220,565	-	-	-	2,940,869
Property Taxes Receivable	922,505	83,914	-	-	629,227	1,635,646
Special Assessments Receivable	11,741	-	566,967	-	318,470	897,178
Total Assets	<u>12,696,177</u>	<u>1,305,512</u>	<u>629,302</u>	<u>5,807,726</u>	<u>4,867,963</u>	<u>25,306,680</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 85,821	\$ -	\$ -	\$ 75,698	\$ 31,269	\$ 192,788
Accrued Wages and Benefits	311,387	-	-	-	19,904	331,291
Intergovernmental Payable	12,530	-	-	-	43,733	56,263
Retainage Payable	-	-	-	48,428	-	48,428
Interfund Payable	-	-	-	-	49,431	49,431
Unearned Revenue	-	-	-	-	442,593	442,593
Total Liabilities	<u>409,738</u>	<u>-</u>	<u>-</u>	<u>124,126</u>	<u>586,930</u>	<u>1,120,794</u>
Deferred Inflows of Resources:						
Property Tax	870,999	157,445	-	-	598,212	1,626,656
Unavailable Revenue - Delinquent Property Tax	44,870	4,079	-	-	31,015	79,964
Unavailable Revenue - Income Tax	851,251	69,020	-	-	-	920,271
Unavailable Revenue - Other	136,274	4,819	566,967	-	552,217	1,260,277
Total Deferred Inflows of Resources	<u>1,903,394</u>	<u>235,363</u>	<u>566,967</u>	<u>-</u>	<u>1,181,444</u>	<u>3,887,168</u>
Fund Balances:						
Nonspendable	152,127	-	-	-	116,586	268,713
Restricted	-	1,070,149	62,335	5,683,600	2,965,932	9,782,016
Committed	-	-	-	-	63,002	63,002
Assigned	1,218,827	-	-	-	-	1,218,827
Unassigned (Deficit)	9,012,091	-	-	-	(45,931)	8,966,160
Total Fund Balances	<u>10,383,045</u>	<u>1,070,149</u>	<u>62,335</u>	<u>5,683,600</u>	<u>3,099,589</u>	<u>20,298,718</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 12,696,177</u>	<u>\$ 1,305,512</u>	<u>\$ 629,302</u>	<u>\$ 5,807,726</u>	<u>\$ 4,867,963</u>	<u>\$ 25,306,680</u>

The notes to the 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, 2021

Total Governmental Funds Balance	\$ 20,298,718
-----------------------------------------	---------------

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	42,063,864
--------------------------------------------------------------------------------------------------------------------------	------------

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

Delinquent Property taxes	\$ 79,964	
Municipal income taxes	920,271	
Special assessments	897,178	
Intergovernmental	325,429	
Charges for services	<u>37,670</u>	
Total		2,260,512

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.	(19,544)
--------------------------------------------------------------------------------------------------------------------------------------------------------	----------

The net pension liability and net OPEB liability is not due and payable in the current period; and the net OPEB asset is not available for spending in the current period; therefore, the liability, asset, and related deferred inflows /outflows are not reported in governmental funds:

Deferred Outflows - Pension	2,612,210	
Deferred Inflows - Pension	(2,545,301)	
Net Pension Liability	(14,755,713)	
Deferred Outflows- OPEB	1,458,551	
Deferred Inflows-OPEB	(2,329,071)	
Net OPEB Liability	(1,852,685)	
Net OPEB Asset	<u>336,950</u>	
Total		(17,075,059)

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	(\$8,725,000)	
Unamortized bond premiums	(525,406)	
OPWC Loan	(2,348,629)	
Compensated absences	<u>(1,702,016)</u>	
Total		<u>(13,301,051)</u>

Net Position of Governmental Activities	\$ 34,227,440
------------------------------------------------	----------------------

The notes to the 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, 2021

	General Fund	General Bond Retirement	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 825,244	\$ 75,026	\$ -	\$ -	\$ 600,167	\$ 1,500,437
Municipal Income Taxes	10,778,773	811,733	-	-	-	11,590,506
Other Taxes	-	36,217	-	-	24,341	60,558
Payments in Lieu of Taxes	-	77,167	-	-	-	77,167
Intergovernmental	246,737	9,638	-	-	873,221	1,129,596
Interest	48,177	-	-	61,118	27	109,322
Fees, Licenses, and Permits	588,948	-	-	-	21,299	610,247
Fines and Forfeitures	-	-	-	-	17,490	17,490
Charges for Services	582,330	-	-	29,599	277,900	889,829
Contributions and Donations	13,628	-	-	-	14	13,642
Special Assessments	11,886	-	173,315	-	300,126	485,327
All Other Revenues	269,867	-	-	-	77,998	347,865
Total Revenues	13,365,590	1,009,781	173,315	90,717	2,192,583	16,831,986
EXPENDITURES						
Security of Persons and Property	7,594,193	-	-	393,252	940,590	8,928,035
Public Health Services	71,296	-	-	-	-	71,296
Leisure Time Activities	63,200	-	-	132,303	518,451	713,954
Community Environment	107,003	-	-	-	1,458	108,461
Basic Utility Services	2,434,803	-	-	-	-	2,434,803
Transportation	447	-	-	1,250,301	783,373	2,034,121
General Government	2,863,360	26,229	1,701	508,813	119,759	3,519,862
Debt Service:						
Principal Retirement	-	2,202,575	281,552	-	-	2,484,127
Interest and Fiscal Charges	-	136,580	34,250	-	-	170,830
Debt Issuance Costs	-	234,116	-	-	-	234,116
Total Expenditures	13,134,302	2,599,500	317,503	2,284,669	2,363,631	20,699,605
Excess of Revenues (Under) Expenditures	231,288	(1,589,719)	(144,188)	(2,193,952)	(171,048)	(3,867,619)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	11,092	-	-	-	1,618	12,710
General Obligation Bonds Issued	-	1,710,000	-	6,200,000	-	7,910,000
Premium on Debt Issuance	-	472,079	-	-	-	472,079
Transfers In	1,001,028	-	-	105,808	630,000	1,736,836
Transfers Out	(630,000)	-	-	(1,000,000)	(106,836)	(1,736,836)
Total Other Financing Sources (Uses)	382,120	2,182,079	-	5,305,808	524,782	8,394,789
Net Change in Fund Balances	613,408	592,360	(144,188)	3,111,856	353,734	4,527,170
Fund Balances - Beginning of Year	9,773,906	477,789	206,523	2,571,744	2,732,613	15,762,575
Increase (Decrease) in Inventory	(4,269)	-	-	-	13,242	8,973
Fund Balances - End of Year	\$ 10,383,045	\$ 1,070,149	\$ 62,335	\$ 5,683,600	\$ 3,099,589	\$ 20,298,718

The notes to the 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, 2021

Net Change in Fund Balances-Total Governmental Funds		4,527,170
<i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Outlay	1,598,093	
Depreciation	<u>(2,174,150)</u>	
Total		(576,057)
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.		
		(1,957)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	14,844	
Municipal income taxes	(129,877)	
Special assessments	246,716	
Intergovernmental	8,392	
Charges for services	<u>(4,297)</u>	
Total		135,778
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 bonds and the related premium.		
		(8,382,079)
Repayment of debt principal expenditures in the Governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position.		
		2,484,128
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows		
Pension	1,427,786	
OPEB	<u>29,910</u>	
Total		1,457,696
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
Pension	(935,583)	
OPEB	<u>2,032,257</u>	
Total		1,096,674
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	(32,502)	
Accrued interest on bonds	(626)	
Amortization of bond premiums	27,104	
Amortization of loss on refunding	(12,280)	
Change in inventory	<u>8,973</u>	
Total		<u>(9,331)</u>
Change in Net Position of Governmental Activities		<u><u>732,022</u></u>

The notes to the 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, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 826,973	\$ 878,390	\$ 878,390	\$ -
Municipal Income Taxes	10,338,736	10,981,542	10,981,542	-
Intergovernmental	179,392	190,546	190,546	-
Interest	27,876	29,609	29,609	-
Fees, Licenses, and Permits	555,951	590,517	590,517	-
Charges for Services	550,517	584,745	584,745	-
Contributions and Donations	12,830	13,628	13,628	-
Special Assessments	11,190	11,886	11,886	-
All Other Revenues	255,690	271,587	271,587	-
Total Revenues	12,759,155	13,552,450	13,552,450	-
<u>Expenditures</u>				
Current:				
Security of Persons & Property	7,898,978	7,893,078	7,630,322	262,756
Public Health Services	107,625	107,625	103,977	3,648
Leisure Time Activities	63,726	75,406	72,975	2,431
Community Environment	135,893	135,893	109,049	26,844
Basic Utility Services	2,645,215	2,645,215	2,494,677	150,538
General Government	3,216,569	3,214,288	2,951,495	262,793
Total Expenditures	14,068,006	14,071,505	13,362,495	709,010
Excess of Revenues Over (Under) Expenditures	(1,308,851)	(519,055)	189,955	709,010
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	5,000	11,092	11,092	-
Advances Out	-	(49,431)	(49,431)	-
Transfers In	1,025,000	1,026,028	1,026,028	-
Transfers Out	(655,000)	(655,000)	(655,000)	-
Total Other Financings Sources (Uses)	375,000	332,689	332,689	-
Net Change in Fund Balance	(933,851)	(186,366)	522,644	709,010
Fund Balance - Beginning of Year	7,686,545	7,686,545	7,686,545	-
Prior Year Encumbrances Appropriated	167,312	167,312	167,312	-
Fund Balance - End of Year	\$ 6,920,006	\$ 7,667,491	\$ 8,376,501	\$ 709,010

See accompanying notes to the basic financial statements.

City of Highland Heights, Ohio

Statement of Fiduciary Net Position

Custodial Fund

December 31, 2021

	<u>Custodial Fund</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 138
Total Assets	<u>138</u>
NET POSITION	
Restricted For:	
Individuals, Organizations, and Other Governments	138
Total Net Position	<u>\$ 138</u>

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

City of Highland Heights, Ohio

Statement of Changes in Fiduciary Net Position Custodial Fund For the Year Ended December 31, 2021

	<u>Custodial Fund</u>
ADDITIONS	
Licenses, Permits, & Fees Distributions for Other Governments	\$ 8,162
Total Additions	<u>8,162</u>
DEDUCTIONS	
Licenses, Permits, & Fees Distributions to Other Governments	<u>8,078</u>
Total Deductions	<u>8,078</u>
Net Increase in Fiduciary Net Position	84
Net Position - Beginning of Year	<u>54</u>
Net Position - End of Year	<u><u>\$ 138</u></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, 2021

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 four organizations which are defined as jointly governed organizations. The jointly governed organizations are 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 17 to the basic financial statements. The City is also associated with Northern Ohio Risk Management Association which is defined as a risk sharing pool as presented in Note 14. The City is associated with Ohio Government Benefit Cooperative (OGBC) which is defined as an insurance purchasing pool as presented in Note 18.

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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, 2021

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.

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.

Special Assessment Bond Retirement Fund – The Special Assessment Bond Retirement Fund accounts for special assessments restricted for the purpose of retiring the City's special assessment debt obligations.

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 custodial 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. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's fiduciary funds are custodial funds. The City has one custodial fund used to account for the OBBC 1% and 3% collection fees.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

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. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The City reported unearned revenue related to contractor bonds and deposits and unspent proceeds of ARPA money.

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, pension and OPEB 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 and OPEB are explained in Note 11 and Note 12.

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 OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2021, but which were levied to finance year 2022 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments, and 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 and OPEB are reported on the government-wide statement of net position (see Note 11 and Note 12).

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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 2021, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposits, U.S. Treasury Securities, a U.S. Government Bond, 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 2021, there were no limitation 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 \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

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 2021 amounted to \$48,177.

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, 2021, 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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:

<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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

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.

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability/asset should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

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

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. BPin 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.

M. Net Position

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

Net Position 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, 2021

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 2021.

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 2021, 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, 2021

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/Other Postemployment Benefits (OPEB)

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

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The objective of this Statement is to establish the term annual comprehensive financial report and its acronym *ACFR*. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Implementation Guide 2019-1, *Update*. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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. Advances in and advances out are operating transactions (budget basis) as opposed to when the liability is incurred (GAAP basis);
- d. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, and assigned fund balance (GAAP basis);

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

GAAP Basis	\$ 613,408
Increase (Decrease) Due to:	
Revenue Accruals	186,997
Expenditure Accruals	(33,952)
Advances out	(49,431)
Adjustment for Encumbrances	(194,241)
Funds with Separate Legally Adopted Budgets	(137)
Budgetary Basis	<u>\$ 522,644</u>

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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;
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 Treasury Asset Reserve of Ohio (STAR Ohio).

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

A. Cash on Hand

At December 31, 2021, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

B. Deposits

At December 31, 2021, the carrying amount of all City deposits was \$8,210,373. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2021, \$550,000 of the City's bank balance of \$8,358,981 was covered by Federal Depository Insurance and \$5,758,031 was uninsured and collateralized with securities held by the pledging financial institution's trust department agent, but not in the City's name, and \$2,050,951 was uninsured and uncollateralized. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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 table on the next page identifies the City's recurring measurement values and level inputs as of December 31, 2021. As previously discussed, Star Ohio is reported at its net asset value. The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs). As of December 31, 2021, fair value was \$62,720 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 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, 2021

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 25.70 percent of the City's total investments. The remaining investments of the City, STAR Ohio, municipal bond, U.S. Government bond, and U.S. Treasury represent 26.12 percent, 28.25 percent, 4.23 percent, and 15.67 percent respectively, of the City's total investments.

Cash and investments at year-end were as follows:

Cash and Investment Type	Measurement Value	Credit Rating (*)	Level Input	Investment Maturity (in years)		
				<1	1-2	3-5
STAR Ohio	\$ 2,792,581	AAAm	N/A	\$ 2,792,581	\$ -	\$ -
Negotiable CD's	2,750,114	N/A	2	502,822	996,786	1,250,506
Municipal Bond	3,019,699	A+/AA/A-	2	2,178,910	534,326	306,463
U.S. Government Bond	452,575	AA+	2	-	-	452,575
U.S. Treasury / Agency Securities	1,675,669	N/A	2	-	-	1,675,669
Total Investments	<u>10,690,638</u>			<u>\$ 5,474,313</u>	<u>\$ 1,531,112</u>	<u>\$ 3,685,213</u>
Carrying Amount of Deposits	8,210,373					
Petty Cash	700					
Total Cash and Investments	<u>\$ 18,901,711</u>					

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

NOTE 6: RECEIVABLES

Receivables at December 31, 2021, 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 2021 for real and public property taxes represents collections of 2020 taxes. Property tax payments received during 2021 for tangible personal property (other than public utility property) are for 2021 taxes.

2021 real property taxes are levied after October 1, 2021, on the assessed value as of January 1, 2022, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2021 real property taxes are collected in and intended to finance 2022.

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. 2021 public utility property taxes which became a lien at December 31, 2020, are levied after October 1, 2021, and are collected in 2022 with real property taxes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2021, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2021 property tax receipts were based are as follows:

Real Property	\$424,291,220
Public Utility Tangible Property	<u>4,979,410</u>
Total	<u>\$429,270,630</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, 2021, 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 2021 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, 2021

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

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, 2021, special assessments expected to be collected in more than one year amount to \$897,178 including delinquent special assessments of \$371,289.

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>	
Gasoline Tax	\$ 250,931
Local Government	55,842
Homestead and Rollback Reimbursement	96,371
Auto Registration	35,053
Permissive Tax	5,468
Payment in Lieu of Taxes (PILOT)	78,264
Miscellaneous	7,008
Total Intergovernmental Receivables	<u><u>\$ 528,937</u></u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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	General Bond Retirement	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepaid Items	\$ 114,089	\$ -	\$ -	\$ -	\$ 294	\$ 114,383
Inventories	22,462	-	-	-	116,292	138,754
Unclaimed Funds	15,576	-	-	-	-	15,576
<i>Total Nonspendable</i>	<u>152,127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,586</u>	<u>268,713</u>
<i>Restricted for</i>						
Police Pension	-	-	-	-	120,274	120,274
Fire Pension	-	-	-	-	54,104	54,104
Parks and Recreation	-	-	-	-	961,796	961,796
Other Law Enforcement	-	-	-	-	110,584	110,584
Streets and Highways	-	-	-	-	1,258,870	1,258,870
Street Lighting	-	-	-	-	441,593	441,593
FEMA Fire Assistance	-	-	-	-	11,768	11,768
Misc Trust	-	-	-	-	4,797	4,797
Other Grants	-	-	-	-	2,146	2,146
Debt Service	-	1,070,149	62,335	-	-	1,132,484
Capital Improvements	-	-	-	5,683,600	-	5,683,600
<i>Total Restricted</i>	<u>-</u>	<u>1,070,149</u>	<u>62,335</u>	<u>5,683,600</u>	<u>2,965,932</u>	<u>9,782,016</u>
<i>Committed to</i>						
Parks and Recreation Improvements	-	-	-	-	8,693	8,693
Street Trees	-	-	-	-	8,414	8,414
White Road Development	-	-	-	-	45,895	45,895
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,002</u>	<u>63,002</u>
<i>Assigned to</i>						
Purchases on Order						
Basic Utility	28,120	-	-	-	-	28,120
Community Environment	1,411	-	-	-	-	1,411
General Government	62,878	-	-	-	-	62,878
Leisure Time Activities	9,775	-	-	-	-	9,775
Public Health	26,990	-	-	-	-	26,990
Security of Persons and Property	44,985	-	-	-	-	44,985
Fiscal Year 2022 Appropriations	1,044,668	-	-	-	-	1,044,668
<i>Total Assigned</i>	<u>1,218,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,218,827</u>
<i>Unassigned</i>	9,012,091	-	-	-	(45,931)	8,966,160
Total Fund Balances	<u>\$ 10,383,045</u>	<u>\$ 1,070,149</u>	<u>\$ 62,335</u>	<u>\$ 5,683,600</u>	<u>\$ 3,099,589</u>	<u>\$ 20,298,718</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 8: INTERFUND TRANSFERS AND BALANCES

A. Interfund Transfers

Transfers made during the year end December 31, 2021 were as follow:

Transfers Out	Transfers In			Total
	General	Capital Improvement	Nonmajor Governmental Funds	
General	\$ -	\$ -	\$ 630,000	\$ 630,000
Capital Improvement	1,000,000	-	-	1,000,000
Nonmajor Governmental Funds	1,028	105,808	-	106,836
Total	\$ 1,001,028	\$ 105,808	\$ 630,000	\$ 1,736,836

The General Fund transferred \$315,000 to the Police Pension Fund and \$315,000 to the Fire Pension Fund for pension obligation payments. In addition, the Capital Improvement Fund transferred \$1,000,000 back to the General Fund for unused funds. The Local Coronavirus Relief Fund and American Rescue Plan Act Fund transferred \$1,028 and \$105,808 to the General Fund and Capital Improvement Fund, respectively, to cover costs allowed by each federal program.

B. Interfund Balances

Interfund loans consisted of the following amounts “interfund receivable/payable” at December 31, 2021, as reported on the fund financial statements.

	Receivable	Payable
Governmental Activities:		
General	\$ 49,431	\$ -
NOPEC POC Grant	-	49,431
Total	\$ 49,431	\$ 49,431

The primary purpose of the interfund balances is to cover costs in specific funds where anticipated revenues were not received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balance are expected to be repaid within one year. Interfund balances at December 31, 2021 consisted of \$49,431 due to the General Fund from the NOPEC POC Grant. Interfund balances between governmental funds are eliminated on the governmental-wide financial statements; therefore, no internal balances at December 31, 2021 are reported on the statement of net position.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2021 follows:

	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Construction in Progress	-	871,005	-	871,005
Total Capital Assets Not Being Depreciated	1,679,660	871,005	-	2,550,665
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,289,092	41,845	-	2,330,937
Buildings	7,488,537	105,558	-	7,594,095
Machinery and Equipments	2,885,185	508,710	(14,699)	3,379,196
Furniture and Fixtures	100,117	-	(11,149)	88,968
Vehicles	3,841,261	70,975	-	3,912,236
Infrastructures				
Roads	29,492,392	-	-	29,492,392
Water Mains	14,446,875	-	-	14,446,875
Sanitary Sewers	13,862,512	-	-	13,862,512
Storm Sewers	17,676,637	-	-	17,676,637
Culverts	219,885	-	-	219,885
Bridges	216,549	-	-	216,549
Traffic Signals	84,068	-	-	84,068
Totals at Historical Cost	92,603,110	727,088	(25,848)	93,304,350
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,840,637)	(120,381)	-	(1,961,018)
Buildings	(5,888,740)	(208,555)	-	(6,097,295)
Machinery and Equipments	(1,727,835)	(161,764)	12,965	(1,876,634)
Furniture and Fixtures	(51,556)	(3,471)	10,926	(44,101)
Vehicles	(2,358,602)	(329,831)	-	(2,688,433)
Infrastructures				
Roads	(14,345,853)	(518,500)	-	(14,864,353)
Water Mains	(7,339,399)	(247,839)	-	(7,587,238)
Sanitary Sewers	(7,620,649)	(255,644)	-	(7,876,293)
Storm Sewers	(10,179,239)	(318,889)	-	(10,498,128)
Culverts	(136,076)	(3,867)	-	(139,943)
Bridges	(86,620)	(4,331)	-	(90,951)
Traffic Signals	(65,686)	(1,078)	-	(66,764)
Total Accumulated Depreciation	(51,640,892)	(2,174,150) *	23,891	(53,791,151)
<i>Total Capital Assets, being Depreciated, Net</i>	<i>40,962,218</i>	<i>(1,447,062)</i>	<i>(1,957)</i>	<i>39,513,199</i>
Governmental Activities Capital Assets, Net	\$ 42,641,878	\$ (576,057)	\$ (1,957)	\$ 42,063,864

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 9: CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 104,590
Security of Persons and Property	403,273
Basic Utilities	826,239
Leisure Time Activities	179,148
Transportation	660,900
Total Depreciation Expense	<u><u>\$ 2,174,150</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: DEFINED BENEFIT PENSION PLANS

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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

A. Net Pension Liability (Continued)

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 basis of accounting.

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

Plan Description - City employees 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.

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' Annual Comprehensive Financial Report referenced above for additional information):

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

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 62 with 60 months of service credit or Age 57 with 25 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. The base amount of a member’s pension benefit is locked in upon receipt of the initial benefit payment for calculation of the annual cost-of-living adjustment.

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. 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.

A death benefit of \$500 - \$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Tradition pension plan and the Combined Plan.

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers. It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care. The date of implementation will be determined when finalized changes are approved.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the members' contributions plus or minus the investment gains or losses resulting from the members' investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Beginning in 2022, the combined plan will be consolidated under the traditional pension plan (defined benefit plan) and the combined plan will no longer be available for new hires beginning in 2022.

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

	State and Local
2021 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2021 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2021 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2021. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$409,629 for fiscal year ending December 31, 2021.

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. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position.

The report may be obtained by visiting the OP&F 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. Members participating in the DROP program have separate eligibility requirements related to COLA.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (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, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the members' base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 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
2021 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2021 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,018,157 for 2021.

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, 2020, and the total pension liability/asset 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, 2020, and was determined by rolling forward the total pension liability as of January 1, 2020, to December 31, 2020. 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. The following page is information related to the proportionate share and pension expense:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.019521%	0.0864501%	0.0865627%	
Proportion of the Net Pension Liability Current Measurement Date	0.019147%	0.0844600%	0.0904014%	
Change in Proportionate Share	-0.000374%	-0.0019901%	0.0038387%	
 Proportionate Share of the Net Pension Liability	 \$ 2,835,254	 \$ 5,757,714	 \$ 6,162,745	 \$ 14,755,713
Pension Expense	\$ (49,765)	\$ 434,317	\$ 551,031	\$ 935,583

At December 31, 2021, 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				
Differences between expected and actual experience	-	240,693	257,621	498,314
Changes of assumptions	-	96,560	103,354	199,914
Changes in proportion and differences between City contributions and proportionate share of contributions City contributions subsequent to the measurement date	-	156,434	329,762	486,196
	409,629	486,366	531,791	1,427,786
Total Deferred Outflows of Resources	\$ 409,629	\$ 980,053	\$ 1,222,528	\$ 2,612,210
 Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$ 1,105,100	\$ 279,288	\$ 298,930	\$ 1,683,318
Differences between expected and actual experience	118,602	224,300	240,085	582,987
Changes in proportion and differences between City contributions and proportionate share of contributions	92,251	146,341	40,404	278,996
Total Deferred Inflows of Resources	\$ 1,315,953	\$ 649,929	\$ 579,419	\$ 2,545,301

\$1,427,786 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense on the following page:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

Year Ending December 31:	OPERS	OP&F Police	OP&F Fire	Total
2022	\$ (541,278)	\$ (6,047)	\$ 44,017	\$ (503,308)
2023	(173,480)	146,187	210,328	183,035
2024	(450,475)	(248,614)	(202,642)	(901,731)
2025	(150,720)	(45,321)	34,692	(161,349)
2026	-	(2,447)	24,923	22,476
Total	(\$1,315,953)	(\$156,242)	\$111,318	(\$1,360,877)

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, 2020, 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. 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	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA	Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 0.50 percent, simple through 2021, then 2.15 percent simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the previously 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.

OPERS manages investments in three investment portfolios: the Defined Benefits portfolio, the Health Care 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. 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 was 11.70 percent for 2020.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

The table below displays the Board-approved asset allocation policy for 2020 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	25.00 %	1.32 %
Domestic Equities	21.00	5.64
Real Estate	10.00	5.39
Private Equity	12.00	10.42
International Equities	23.00	7.36
Other investments	9.00	4.75
Total	100.00 %	5.43 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 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 7.2 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 (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
City's proportionate share of the net pension liability			
Traditional Pension Plan	\$ 5,408,262	\$ 2,835,254	\$ 695,802

Changes Between Measurement Date and Report Date

Cost-of-living adjustments for OPERS members in 2022 will be 3 percent for all those eligible to receive the annual benefit increase.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

F. Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2020 is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2020, are presented below:

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple, 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

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

The most recent experience study was completed December 31, 2016.

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, 2020 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return **
Domestic Equity	21.00 %	5.40 %
International Equity	14.00	2.80
Core Fixed Income *	23.00	2.70
U.S. Inflation Linked Bonds*	17.00	2.50
High Yield Fixed Income	7.00	4.70
Private Real Estate	12.00	6.40
Private Markets	8.00	8.00
Midstream Energy Infrastructure	5.00	6.60
Private Credit	5.00	5.50
Real Assets	8.00	7.40
Gold	5.00	1.90
 Total	 125.00 %	

Note: Assumptions are
geometric

* levered 2x

** numbers are net of expected inflation

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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

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

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

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 16,594,805	\$ 11,920,459	\$ 8,008,502

NOTE 12: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability/Asset**

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

A. **Net OPEB Liability/Asset** (Continued)

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

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

GASB 75 assumes that any liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2020, measurement date health care valuation.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Comprehensive Annual Financial Report referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care was no longer being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2021, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, beginning January 1, 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2021 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$5,796 for 2021.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) a cost-sharing, multiple-employer defined post-employment healthcare plan that provides various levels of health care to retired, disabled and beneficiaries, as well as their dependents. On January 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses. As a result of this change, it is expected that the solvency of the Health Care Stabilization Fund (HCSF) will be extended allowing OP&F to provide stipends to eligible participants.

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2021, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The City's contractually required contribution to OP&F was \$24,114 for 2021.

D. **OPEB Liabilities/Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB asset and total OPEB asset for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2020, and was determined by rolling forward the total OPEB liability as of January 1, 2020, to December 31, 2020. The City's proportion of the net OPEB liability/asset was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

D. OPEB Liabilities/Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.019115%	0.1730128%	
Proportion of the Net OPEB Liability Current Measurement Date	0.018913%	0.1748614%	
Change in Proportionate Share	-0.000202%	0.0018486%	
Proportionate Share of the Net OPEB Liability/(Asset)	\$ (336,950)	\$ 1,852,685	\$ 1,515,735
OPEB Expense	\$ (2,255,198)	\$ 222,941	\$ (2,032,257)

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Changes of assumptions	\$ 165,649	\$ 1,023,508	\$ 1,189,157
Changes in proportion and differences between City contributions and proportionate share of contributions	20,885	218,599	239,484
City contributions subsequent to the measurement date	5,796	24,114	29,910
Total Deferred Outflows of Resources	\$ 192,330	\$ 1,266,221	\$ 1,458,551
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 304,095	\$ 305,596	\$ 609,691
Changes of assumptions	545,960	295,352	841,312
Net difference between projected and actual earnings on OPEB plan investments	179,463	68,850	248,313
Changes in proportion and differences between City contributions and proportionate share of contributions	629,755	-	629,755
Total Deferred Inflows of Resources	\$ 1,659,273	\$ 669,798	\$ 2,329,071

\$29,910 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2022.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

D. OPEB Liabilities/Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2022	\$ (1,053,703)	\$ 125,217	\$ (928,486)
2023	(319,899)	141,518	(178,381)
2024	(77,989)	115,815	37,826
2025	(21,148)	120,468	99,320
2026	-	35,599	35,599
Thereafter	-	33,692	33,692
Total	<u>\$ (1,472,739)</u>	<u>\$ 572,309</u>	<u>\$ (900,430)</u>

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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – OPERS (Continued)

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	6.00 percent
Prior Measurement date	3.16 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate:	
Current measurement date	2.00 percent
Prior Measurement date	2.75 percent
Health Care Cost Trend Rate:	
Current measurement date	8.5 percent, initial 3.50 percent, ultimate in 2035
Prior Measurement date	10.5 percent, initial 3.50 percent, ultimate in 2030
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above-described tables.

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – OPERS (Continued)

During 2020, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 10.50 percent for 2020.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2020 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	1.07 %
Domestic Equities	25.00	5.64
Real Estate Investment Trust	7.00	6.48
International Equities	25.00	7.36
Other investments	9.00	4.02
Total	<u>100.00 %</u>	4.43 %

Discount Rate A single discount rate of 6.00 percent was used to measure the OPEB asset on the measurement date of December 31, 2020. A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 2.00 percent and a municipal bond rate of 2.75 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2120. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2120, and the municipal bond rate was applied to all health care costs after that date.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Sensitivity of the City’s Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net OPEB asset calculated using the single discount rate of 6.00 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
City's proportionate share of the net OPEB asset	\$ (83,785)	\$ (336,950)	\$ (545,073)

Sensitivity of the City’s Proportionate Share of the Net OPEB Asset to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB asset calculated using the assumed trend rates, and the expected net OPEB asset if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2021 is 8.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB asset	\$ (345,162)	\$ (336,950)	\$ (327,762)

F. **ACTUARIAL ASSUMPTIONS – OP&F**

OP&F’s total OPEB liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. ACTUARIAL ASSUMPTIONS – OP&F (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

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

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	2.96 percent
Prior measurement date	3.56 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

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

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

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2020, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return **
Domestic Equity	21.00 %	5.40 %
Non-US Equity	14.00	5.80
Core Fixed Income *	23.00	2.70
U.S. Inflation Linked Bonds *	17.00	2.50
High Yield Fixed Income	7.00	4.70
Private Real Estate	12.00	6.40
Private Markets	8.00	8.00
Midstream Energy Infrastructure	5.00	6.60
Private Credit	5.00	5.50
Real Assets	8.00	7.40
Gold	5.00	1.90
Total	125.00 %	

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the 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 in core fixed income and U.S. inflation linked bonds and the implementation approach for gold.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Discount Rate The total OPEB liability was calculated using the discount rate of 2.96 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.12 percent at December 31, 2020 and 2.75 percent at December 31, 2019, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 2.96 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2037. The long-term expected rate of return on health care investments was applied to projected costs through 2037, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 2.96 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.96 percent), or one percentage point higher (3.96 percent) than the current rate.

	1% Decrease (1.96%)	Current Discount Rate (2.96%)	1% Increase (3.96%)
City’s proportionate share of the net OPEB liability	\$ 2,310,193	\$ 1,852,685	\$ 1,475,295

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate because it is based on a medical benefit that is a flat dollar amount.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2021, are as follow:

	Principal Outstanding 12/30/2020	Additions	Deletions	Principal Outstanding 12/31/2021	Amounts Due in One Year
<u>Governmental Activities</u>					
<i>Bond Anticipation Notes</i>					
Various Purpose Street Improvement Anticipation Notes, Series 2020, \$1,750,000 1.50%	\$ 1,750,000	\$ -	\$ (1,750,000)	\$ -	\$ -
Unamortized Note Premium	7,594	-	(7,594)	-	-
<i>Total Bond Anticipation Notes</i>	<u>1,757,594</u>	<u>-</u>	<u>(1,757,594)</u>	<u>-</u>	<u>-</u>
<i>General Obligation Bonds</i>					
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	685,000	-	(100,000)	585,000	105,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125%	495,000	-	(265,000)	230,000	75,000
2021 \$7,910,000 Various Purpose 1.0-5.0%	-	7,910,000	-	7,910,000	60,000
<i>Total General Obligation Bonds</i>	<u>1,180,000</u>	<u>7,910,000</u>	<u>(365,000)</u>	<u>8,725,000</u>	<u>240,000</u>
<i>Direct Borrowings</i>					
<i>Ohio Public Works Commission</i>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	41,014	-	(41,014)	-	-
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	48,015	-	(48,015)	-	-
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	68,673	-	(51,507)	17,166	17,166
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	346,467	-	(47,247)	299,220	31,496
2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0%	566,610	-	(96,157)	470,453	34,340
2015 \$1,703,770 Highland Road Water Main Replacement, 0%	1,646,978	-	(85,188)	1,561,790	56,792
<i>Total Ohio Public Works Commission</i>	<u>2,717,757</u>	<u>-</u>	<u>(369,128)</u>	<u>2,348,629</u>	<u>139,794</u>
<i>Other Long-term Liabilities</i>					
Unamortized Bond Premium	\$ 72,837	\$ 472,079	\$ (19,510)	\$ 525,406	\$ -
Net Pension Liability					
OPERS	3,858,458	-	(1,023,204)	2,835,254	-
OP&F	11,655,067	265,392	-	11,920,459	-
Total Net Pension Liability	<u>15,513,525</u>	<u>265,392</u>	<u>(1,023,204)</u>	<u>14,755,713</u>	<u>-</u>
Net OPEB Liability					
OPERS	2,640,278	-	(2,640,278)	-	-
OP&F	1,708,974	143,711	-	1,852,685	-
Total OPEB Liability	<u>4,349,252</u>	<u>143,711</u>	<u>(2,640,278)</u>	<u>1,852,685</u>	<u>-</u>
Compensated Absences	1,669,514	706,367	(673,865)	1,702,016	669,058
<i>Total Other Long-term Liabilities</i>	<u>21,605,128</u>	<u>1,587,549</u>	<u>(4,356,857)</u>	<u>18,835,820</u>	<u>669,058</u>
Total Governmental Long-Term Liabilities	<u>\$ 27,260,479</u>	<u>\$ 9,497,549</u>	<u>\$ (6,848,579)</u>	<u>\$ 29,909,449</u>	<u>\$ 1,048,852</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

The 2007 bonds were issued for the construction of Aberdeen Business Park.

In 2021, the City issued \$7,910,000 for various capital projects. The interest rate ranges from 1.0%-5.0% and will mature in 2036.

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 \$230,000 as of December 31, 2021.

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.

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 thirty years. As of December 31, 2021, the loan balance for the portion of the project completed was \$1,561,790.

The City's direct borrowing from OPWC in the amount of \$2,348,629 contain a provision that in the event of default the amount of such default shall bear interest thereafter at the rate of 8 percent per annum until the date of payment, and outstanding amounts become immediately due. Also, OPWC may direct the county treasurer to pay the outstanding amount from portion of the local government fund that would otherwise be appropriated to the City.

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, 2021

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2020, the City's overall debt margin was \$36,760,531 with an unvoted debt margin of \$15,297,220.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2021, from the general resources of the City are as follows:

Year	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 240,000	\$ 234,526	\$ 139,794	\$ -	\$ 379,794	\$ 234,526
2023	705,000	223,931	122,629	-	827,629	223,931
2024	745,000	190,088	122,629	-	867,629	190,088
2025	705,000	154,338	122,629	-	827,629	154,338
2026	740,000	119,087	122,629	-	862,629	119,087
2027-2031	3,240,000	343,103	597,398	-	3,837,398	343,103
2032-2036	2,350,000	140,325	455,662	-	2,805,662	140,325
2037-2041	-	-	283,962	-	283,962	-
2040-2046	-	-	283,962	-	283,962	-
2047-2049	-	-	97,335	-	97,335	-
Totals	<u>\$ 8,725,000</u>	<u>\$ 1,405,398</u>	<u>\$ 2,348,629</u>	<u>\$ -</u>	<u>\$ 11,073,629</u>	<u>\$ 1,405,398</u>

NOTE 14: 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.

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 2021, the City of Highland Heights paid \$83,452 in premiums from the General Fund, which represents 5.4 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 15: RISK MANAGEMENT

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

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

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

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

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

The medical and prescription benefits are provided through Medical Mutual of Ohio from January 1 through December 31, 2021. Dental and vision benefits are provided through Delta Dental and Vision Benefits of America. 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 MMO is \$744.88 for single coverage; \$1,487.74 for employee and spouse coverage; \$1,241.69 for employee and children coverage; and \$2,010.59 for family coverage. The monthly premium for dental benefits is \$31.57 for single coverage and \$91.58 for family coverage.

NOTE 16: 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 17: JOINTLY GOVERNED ORGANIZATION

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2021, the City contributed \$71,759. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

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 \$23,000 to ESCOG in 2021.

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 2021. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

NOTE 17: **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 18: **INSURANCE PURCHASING POOL**

Ohio Government Benefit Cooperative

The City participates in the Ohio Government Benefit Cooperative (OGBC), a claims servicing and group purchasing pool comprised of six cities. The OGBC is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. The Board of Directors is the governing body of the consortium. Each City appoints one individual to be its representative on the Board of Directors. The City of Willoughby serves as the fiscal agent for OGBC. OGBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and their eligible dependents and designated beneficiaries of such employees.

Participants pay an initial \$500 membership fee to OGBC. OGBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OGBC's third party administrator. Medical Mutual is the Administrator of the OGBC. During 2021, the City elected to participate in the joint insurance program for medical, prescription drug, and vision coverage. Financial information can be obtained by contacting Diane Bosley, Fiscal Officer, One Public Square, Willoughby, Ohio 44094.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2021

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, 2021, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 194,243
Capital Improvement	1,600,085
Nonmajor Funds:	
Special Revenue Funds	259,783
Total	<u>\$ 2,054,111</u>

NOTE 20: ACCOUNTABILITY

Fund balances at December 31, 2021 included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Governmental Funds	
NOPEC Grant	45,931

The General Fund is liable for any deficits in this fund and provides transfers when cash is required not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities in accordance with generally accepted accounting principles (GAAP).

NOTE 21: COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During 2021, the City received COVID-19 funding. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

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 Eight Years (1)

Traditional Plan	2021	2020	2019
City's Proportion of the Net Pension Liability	0.019147%	0.019521%	0.020374%
City's Proportionate Share of the Net Pension Liability	\$ 2,835,254	\$ 3,858,458	\$ 5,580,026
City's Covered Payroll	\$ 2,697,450	\$ 2,746,614	\$ 2,751,929
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	105.11%	140.48%	202.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.88%	82.17%	74.70%

(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.

See accompanying notes to the required supplementary information

2018	2017	2016	2015	2014
0.020274%	0.019893%	0.020421%	0.020421%	0.020421%
\$ 3,180,598	\$ 4,517,362	\$ 3,519,331	\$ 2,463,001	\$ 2,407,370
\$ 2,679,192	\$ 2,571,567	\$ 2,528,742	\$ 2,511,908	\$ 2,749,315
118.71%	175.67%	139.17%	98.05%	87.56%
84.66%	77.25%	81.08%	86.45%	86.36%

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 Eight Years (1)

Police	2021	2020	2019
City's Proportion of the Net Pension Liability	0.0844600%	0.0864501%	0.0848430%
City's Proportionate Share of the Net Pension Liability	\$ 5,757,714	\$ 5,823,741	\$ 6,925,431
City's Covered Payroll	\$ 2,298,163	\$ 2,279,963	\$ 2,137,626
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	250.54%	255.43%	323.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.65%	69.89%	63.07%
Fire	2021	2020	2019
City's Proportion of the Net Pension Liability	0.0904014%	0.0865627%	0.0857770%
City's Proportionate Share of the Net Pension Liability	\$ 6,162,745	\$ 5,831,326	\$ 7,001,670
City's Covered Payroll	\$ 1,998,613	\$ 1,854,885	\$ 1,736,417
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	308.35%	314.38%	403.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.65%	69.89%	63.07%

(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.

See accompanying notes to the required supplementary information

2018	2017	2016	2015	2014
0.0832190%	0.0807100%	0.0832094%	0.0877892%	0.0877892%
\$ 5,107,541	\$ 5,112,113	\$ 5,352,922	\$ 4,547,845	\$ 4,275,609
\$ 1,994,342	\$ 1,944,758	\$ 1,907,674	\$ 1,932,211	\$ 2,370,598
256.10%	262.87%	280.60%	235.37%	180.36%
70.91%	68.36%	66.77%	71.71%	73.00%
2018	2017	2016	2015	2014
0.0848360%	0.0822870%	0.0864334%	0.0859751%	0.0859751%
\$ 5,206,745	\$ 5,211,991	\$ 5,560,323	\$ 4,453,869	\$ 4,187,257
\$ 1,672,387	\$ 1,607,672	\$ 1,585,928	\$ 1,533,106	\$ 1,767,766
311.34%	324.19%	350.60%	290.51%	236.87%
70.91%	68.36%	66.77%	71.71%	73.00%

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

	2021	2020	2019	2018
Contractually Required Contributions	\$ 409,629	\$ 377,643	\$ 384,526	\$ 385,270
Contributions in Relation to the Contractually Required Contribution	(409,629)	(377,643)	(384,526)	(385,270)
Contribution Deficiency / (Excess)	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 2,925,921	\$ 2,697,450	\$ 2,746,614	\$ 2,751,929
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

(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.

See accompanying notes to the required supplementary information

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 348,295	\$ 308,588	\$ 303,449	\$ 301,429	\$ 357,411
<u>(348,295)</u>	<u>(308,588)</u>	<u>(303,449)</u>	<u>(301,429)</u>	<u>(357,411)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,679,192	\$ 2,571,567	\$ 2,528,742	\$ 2,511,908	\$ 2,749,315
13.00%	12.00%	12.00%	12.00%	13.00%

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions- Pension
Ohio Police and Fire Pension Fund
Last Ten Years (1)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Contractually Required Contributions</u>				
Police	\$ 486,366	\$ 436,651	\$ 433,193	\$ 406,149
Fire	<u>531,791</u>	<u>469,674</u>	<u>435,898</u>	<u>408,058</u>
Total Required Contributions	\$ 1,018,157	\$ 906,325	\$ 869,091	\$ 814,207
Contributions in Relation to the Contractually Required Contribution	<u>(1,018,157)</u>	<u>(906,325)</u>	<u>(869,091)</u>	<u>(814,207)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll				
Police	\$ 2,559,821	\$ 2,298,163	\$ 2,279,963	\$ 2,137,626
Fire	\$ 2,262,940	\$ 1,998,613	\$ 1,854,885	\$ 1,736,417
<u>Pension Contributions as a Percentage of Covered Payroll</u>				
Police	19.00%	19.00%	19.00%	19.00%
Fire	23.50%	23.50%	23.50%	23.50%

[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.

See accompanying notes to the required supplementary information

2017	2016	2015	2014	2013	2012
\$ 378,925	\$ 369,504	\$ 362,458	\$ 367,120	\$ 372,895	\$ 355,123
<u>393,011</u>	<u>377,803</u>	<u>372,693</u>	<u>360,280</u>	<u>357,619</u>	<u>358,019</u>
\$ 771,936	\$ 747,307	\$ 735,151	\$ 727,400	\$ 730,514	\$ 713,142
<u>(771,936)</u>	<u>(747,307)</u>	<u>(735,151)</u>	<u>(727,400)</u>	<u>(730,514)</u>	<u>(713,142)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,994,342	\$ 1,944,758	\$ 1,907,674	\$ 1,932,211	\$ 2,370,598	\$ 2,785,278
\$ 1,672,387	\$ 1,607,672	\$ 1,585,928	\$ 1,533,106	\$ 1,767,766	\$ 2,075,472
19.00%	19.00%	19.00%	19.00%	[1]	12.75%
23.50%	23.50%	23.50%	23.50%	[1]	17.25%

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

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability/Asset	0.018913%	0.019115%	0.039015%	0.019840%	0.019620%
City's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (336,950)	\$ 2,640,278	\$ 5,086,635	\$ 2,154,478	\$ 1,981,687
City's Covered Payroll	\$ 2,697,450	\$ 2,746,614	\$ 2,751,929	\$ 2,679,192	\$ 2,571,567
City's Proportionate Share of the Net OPEB Liability/Asset as a Percentage of its Covered Payroll	-12.49%	96.13%	184.84%	80.42%	77.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	115.57%	47.80%	46.33%	54.14%	54.04%

(1) Information prior to 2017 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 calendar year end.

See accompanying notes to the required supplementary information

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

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.1748614%	0.1730128%	0.1706198%	0.1680550%	0.1630000%
City's Proportionate Share of the Net OPEB Liability	\$ 1,852,685	\$ 1,708,974	\$ 1,553,755	\$ 9,521,754	\$ 7,737,243
City's Covered Payroll	\$ 4,296,776	\$ 4,134,848	\$ 3,874,043	\$ 3,666,729	\$ 3,552,430
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	43.12%	41.33%	40.11%	259.68%	217.80%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	45.42%	47.08%	46.57%	14.13%	15.96%

(1) Information prior to 2017 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 calendar year end.

See accompanying notes to the required supplementary information

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually Required Contribution	\$ 5,796	\$ 6,380	\$ 5,621
Contributions in Relation to the Contractually Required Contribution	<u>(5,796)</u>	<u>(6,380)</u>	<u>(5,621)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 3,070,829	\$ 2,697,450	\$ 2,746,614
Contributions as a Percentage of Covered Payroll	0.19%	0.24%	0.20%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 5,628	\$ 28,099	\$ 54,232	\$ 52,739
<u>(5,628)</u>	<u>(28,099)</u>	<u>(54,232)</u>	<u>(52,739)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,751,929	\$ 2,679,192	\$ 2,571,567	\$ 2,528,742
0.20%	1.05%	2.11%	2.09%

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

	2021	2020	2019	2018
Contractually Required Contribution	\$ 24,114	\$ 21,484	\$ 20,674	\$ 19,370
Contributions in Relation to the Contractually Required Contribution	(24,114)	(21,484)	(20,674)	(19,370)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
City Covered Payroll	\$ 4,822,761	\$ 4,296,776	\$ 4,134,848	\$ 3,874,043
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions- OPEB
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>
\$ 18,334	\$ 17,762	\$ 18,968	\$ 18,835	\$ 123,052	\$ 223,620
<u>(18,334)</u>	<u>(17,762)</u>	<u>(18,968)</u>	<u>(18,835)</u>	<u>(123,052)</u>	<u>(223,620)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,666,729	\$ 3,552,430	\$ 3,493,602	\$ 3,465,317	\$ 4,138,364	\$ 4,860,750
0.50%	0.50%	0.50%	0.50%	3.62%	6.75%

City of Highland Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2021

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. 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. For 2019, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 7.50% to 7.20%. For 2020, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the cost-of-living adjustments for post-1/7/2013 retirees were reduced from 3.00% simple through 2018 to 1.40% simple through 2020, then 2.15% simple. For 2021, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the cost-of-living adjustments for post-1/7/2013 retirees were reduced from 1.40% simple through 2020 to 0.50% simple through 2021, then 2.15% simple.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018-2021.

Changes in assumptions: For 2018, the single discount rate changed from 4.23% to 3.85%. For 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the expected investment return was reduced from 6.50% to 6.00% (b) In January 2019, the Board adopted changes to health care coverage for Medicare and pre-Medicare retirees. It will include discontinuing the PPO plan for pre-Medicare retirees and replacing it with a monthly allowance to help participants pay for a health care plan of their choosing. The base allowance for Medicare eligible retirees will be reduced. The specific effect of these changes on the net OPEB liability and OPEB expense are unknown at this time (c) the single discount rate changed from 3.85% to 3.96%. For 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the single discount rate changed from 3.96% to 3.16%. For 2021, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the single discount rate changed from 3.16% to 6.00% (b) the municipal bond rate changed from 2.75% to 2.00% (c) the health care cost trend rate changed from 10.50% initial and 3.50% ultimate in 2030 to 8.50% initial and 3.50% ultimate in 2035.

City of Highland Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2021

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) 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 2016. For 2019-2021, there have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation of the pension plan as of the measurement date.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018 and 2020-2021. For 2019, see below regarding changes to stipend-based model.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent. For 2019, the changes of assumptions were: (a) beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend-based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years (b) beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5% (c) the single discount rate changed from 3.24 percent to 4.66 percent. For 2020, the single discount rate changed from 4.66 to 3.56. For 2021, the single discount rate changed from 3.56 to 2.96.

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

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

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 7, 2022, wherein we noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in black ink that reads "James G. Zupka, CPA, Inc." The signature is written in a cursive style.

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

June 7, 2022

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

The prior audit report, as of December 31, 2020, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2020**

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

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	5-14
Basic Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual - General Fund	21
Statement of Fiduciary Net Position – Fiduciary Funds	22
Statement of Changes in Fiduciary Net Position – Custodial Fund	23
Notes to the Basic Financial Statements	24-85
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Last Seven Years	86
Ohio Police and Fire Pension Fund – Last Seven Years	87
Schedule of the City's Contributions – Pension – Ohio Public Employees Retirement System – Last Eight Years	88-89
Ohio Police and Fire Pension Fund – Last Ten Years	90-91
Schedule of the City's Proportionate Share of the Net OPEB Liability – Ohio Public Employees Retirement System – Last Four Years	92
Ohio Police and Fire Pension Fund – Last Four Years	93
Schedule of the City's Contributions – OPEB – Ohio Public Employees Retirement System – Last Six Years	94
Ohio Police and Fire Pension Fund – Last Ten Years	95-96
Notes to the Required Supplementary Information	97-98
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	99-100
Schedule of Prior Year Findings and Recommendations	101

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 as of December 31, 2020, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 21 to the basic financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. Also, as discussed in Note 3 to the basic financial statements, the City restated its net position of governmental activities to correct unrecorded infrastructure as of December 31, 2019. Our opinion is not modified with respect to these matters.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



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

June 7, 2022

This page intentionally left blank.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2020

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, 2020. 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 2020 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 \$33,495,418.
- The net position decreased \$1,834,736 from the prior year.
- Total liabilities and deferred inflows of resources decreased by \$3,608,032 from the prior year.
- The unassigned fund balance for the General Fund was \$7,684,029 or 50.85 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, 2020

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability and net OPEB liability.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position decreased from a restated balance of \$35,330,154 in 2019 to \$33,495,418 in 2020 or 5.19 percent from the prior year.

The table below provides a summary of the City's net position for 2020 and 2019.

Table 1 - Net Position

	Governmental Activities	
	2020	Restated 2019
<u>Assets</u>		
Current and Other Assets	\$ 20,310,937	\$ 21,079,667
Capital Assets	42,641,878	43,826,364
Total Assets	62,952,815	64,906,031
<u>Deferred Outflows of Resources</u>		
Deferral on Refunding	12,280	24,560
Pension	2,596,406	5,508,091
OPEB	2,408,821	2,974,408
Total Deferred Outflows of Resources	5,017,507	8,507,059
<u>Liabilities</u>		
Long-term Liabilities		
Due within one year	3,113,346	1,735,038
Due in More than One Year:		
Net Pension Liability	15,513,525	19,507,127
Net OPEB Liability	4,349,252	6,640,390
Other Amounts	4,284,356	4,826,592
Other Liabilities	974,323	3,059,489
Total Liabilities	28,234,802	35,768,636
<u>Deferred Inflows of Resources</u>		
Property Tax	1,468,223	1,476,067
Pension	2,263,888	352,649
OPEB	2,507,991	485,584
Total Deferred Inflows of Resources	6,240,102	2,314,300
<u>Net Position</u>		
Net Investment in Capital Assets	36,925,970	36,577,941
Restricted	3,676,486	3,665,656
Unrestricted	(7,107,038)	(4,913,443)
Total Net Position	\$ 33,495,418	\$ 35,330,154

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2020 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement 27." The City previously adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and net pension asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2020, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$33,495,418. Due to the recording of GASB 68 and GASB 75, the City's unrestricted net position was a negative \$7,107,038. A portion of the City's net position, \$3,676,486, 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 67.74 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, 2020, was \$36,925,970 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.

Total assets decreased as a result of a decrease in income taxes receivable and depreciable capital assets. The decrease in deferred outflows of resources, increase in deferred inflows of resources, and decrease in net pension liability and net OPEB liability is primarily due to the effects on pension and OPEB of recording GASB 68 and GASB 75. The decrease in other liabilities is due to retirement of a short-term note.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

The table below shows the changes in net position for fiscal year 2020 and 2019.

Table 2 - Change in Net Position

	Governmental Activities	
	2020	2019
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 3,178,174	\$ 2,004,400
Operating Grants and Contributions	1,085,369	570,904
Capital Grants and Contributions	616,433	630,684
General Revenues:		
Property Taxes	1,577,174	1,582,407
Municipal Income Taxes	11,045,879	12,412,033
Other Taxes	60,898	47,846
Grants and Entitlements	309,059	314,779
Other	262,996	467,230
Total Revenues	18,135,982	18,030,283
<u>Program Expenses</u>		
Security of Persons and Property	8,913,189	2,890,999
Public Health Services	86,898	50,829
Leisure Time Activities	707,075	1,017,229
Community Environment	85,420	168,062
Basic Utility Services	3,406,465	4,059,177
Transportation	3,231,909	2,833,163
General Government	3,442,257	3,379,764
Interest and Fiscal Charges	97,505	169,384
Total Program Expenses	19,970,718	14,568,607
Change in Net Position	(1,834,736)	3,461,676
Net Position, Beginning of Year, Restated	35,330,154	31,868,478
Net Position, End of Year	\$ 33,495,418	\$ 35,330,154

Total revenues increased in 2020. This is primarily due to an increase in charges for services and operating grants and contributions. 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 2020, income tax revenue was \$11,045,879. There was a decrease of \$1,366,154 compared to prior year's collections mainly attributable to lower net profits from employer withholdings in 2020. The City's second largest revenue source is charges for services. Charges for services increased by \$1,173,774 or 58.56 percent due to an increase in monies received from the County and the City of Cleveland for reimbursement of projects.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

The City's next largest revenue source is property taxes. The City's full tax rate for collection year 2020 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 2020, property taxes revenue was \$1,577,174. There was an increase in operating grants and contributions due to CARES Act monies received in 2020 for the Local Coronavirus Relief Fund. Operating grants and contributions revenue was \$1,085,369. Other revenue decreased in 2020 by \$204,234 due to a decrease in investment income.

The provisions of GASB Statements 68 and 75 require the City to recognize a pension/OPEB adjustment that increases expenses by \$1,126,178 in 2020 and reduce expenses by \$4,624,151 in 2019. As a result, it is difficult to ascertain the true operational cost of services and the changes in cost of service from year to year. The table below shows the total expenses by function with the GASB Statements 68 and 75 pension and OPEB costs removed.

	Governmental Activities	
	2020	2019
EXPENSES		
Program Expenses:		
Security of persons and property	\$ 8,009,947	\$ 9,058,189
Public health services	86,898	50,829
Leisure time activities	689,181	846,905
Community environment	82,462	122,865
Basic utility services	3,297,000	3,331,387
Transportation	3,229,158	2,800,235
General government	3,352,389	2,812,964
Interest and fiscal charges	97,505	169,384
Total Expenses	\$ 18,844,540	\$ 19,192,758

Total expenses decreased in 2020. This is primarily due to decrease in the area of security of persons and property. The City's decrease in expenses for 2020 was \$348,218 or 1.81 percent as compared to 2019. 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 42.51 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time sworn officers, 4 part-time, and 2 auxiliary officers, 4 full-time and 2 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, 1 assistant chief and 18 full-time, 4 part-time fire fighters/paramedics, and 1 full-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.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

The next largest programs are general government, \$3,352,389 at 17.79 percent, basic utility services, \$3,297,000 at 17.50 percent, transportation, \$3,229,158 at 17.14 percent, and leisure time activities, \$689,181 at 3.66 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 \$15,762,575. Of this amount, \$9,571,312 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 \$7,684,029, while the total General Fund balance was \$9,773,906. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned General Fund balance represents 50.85 percent of General Fund expenditures (including other financing uses), while total General Fund balance 64.69 percent of the same amount. In 2020, the fund balance of the City's General Fund decreased by \$1,110,932 when compared to 2019 due to a decrease in municipal income taxes.

The City's General Bond Retirement Fund experienced an increase of \$2,344,248 in its 2020 fund balance when compared to 2019 primarily due to pay off of a short-term note.

The City's Capital Improvement Fund balance experienced an increase of \$518,894 in 2020 compared to 2019 primarily due to an increase in pooled cash and cash equivalents and decreased expenditures.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2020

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 the final budgeted revenues was \$14,005,475.

The original appropriation (including other financing uses) of \$16,236,794 was increased to \$16,338,669. Even with these adjustments, the actual charges to appropriations (expenditures) were \$1,163,970 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the City had \$42,641,878 invested in a broad range of capital assets, including land, 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 \$1,184,484 or 2.70 percent over last year.

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

	Governmental Activities	
	2020	2019 *
Land	\$ 1,679,660	\$ 1,679,660
Land Improvements	448,455	567,790
Buildings	1,599,797	1,813,321
Machinery and Equipments	1,157,350	1,075,791
Furniture and Fixtures	48,561	12,067
Vehicles	1,482,659	1,043,521
Infrastructures	36,225,396	37,634,212
Total Capital Assets, Net	\$ 42,641,878	\$ 43,826,362

* Restated

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, 2020

Long-Term Debt

The City had \$5,655,351 in outstanding debt at December 31, 2020, compared to \$4,819,895 at December 31, 2019, as shown in Table 4.

Table 4 - Outstanding Long-Term Debt at December 31

	Governmental Activities	
	2020	2019
General Obligation Bonds	\$ 1,180,000	\$ 1,605,000
Special Assessment Bonds	-	350,000
Bond Anticipation Notes	1,757,594	-
OPWC Loans	2,717,757	2,864,895
Total Outstanding Debt	\$ 5,655,351	\$ 4,819,895

The City paid \$425,000 on principal for general obligation bonds, \$350,000 on principal for special assessment bonds, and \$147,138 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, 2020

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 14,034,150
Materials and Supplies Inventory	129,781
Accounts Receivable	81,739
Accrued Interest Receivable	22,332
Intergovernmental Receivable	430,058
Prepaid Items	131,690
Municipal Income Taxes Receivable	3,289,956
Property Taxes Receivable	1,540,769
Special Assessments Receivable	650,462
Nondepreciable Capital Assets	1,679,660
Depreciable Capital Assets	40,962,218
Total Assets	62,952,815
DEFERRED OUTFLOWS OF RESOURCES	
Deferral on Refunding	12,280
Pension	2,596,406
OPEB	2,408,821
Total Deferred Outflows of Resources	5,017,507
LIABILITIES	
Accounts Payable	277,645
Accrued Wages and Benefits	303,381
Intergovernmental Payable	173,361
Accrued Interest Payable	18,918
Retainage Payable	46,068
Unearned Revenue	154,950
Long-term Liabilities:	
Due within One Year	3,113,346
Due in More than One Year:	
Net Pension Liability (see Note 11)	15,513,525
Net OPEB Liability (see Note 12)	4,349,252
Other Amounts	4,284,356
Total Liabilities	28,234,802
DEFERRED INFLOWS OF RESOURCES	
Property Tax	1,468,223
Pension	2,263,888
OPEB	2,507,991
Total Deferred Inflows of Resources	6,240,102
NET POSITION	
Net Investment in Capital Assets	36,925,970
Restricted for:	
Debt Service	1,077,650
Street Construction, Maintenance, and Repairs	1,401,218
Parks and Recreation	824,104
Other Purposes	373,514
Unrestricted	(7,107,038)
Total Net Position	\$ 33,495,418

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

City of Highland Heights, Ohio

Statement of Activities For the Year Ended December 31, 2020

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total</u>
Primary Government:					
Governmental activities:					
Security of Persons and Property	\$ 8,913,189	\$ 404,315	\$ 182,920	\$ -	\$ (8,325,954)
Public Health Services	86,898	-	16,425	-	(70,473)
Leisure Time Activities	707,075	46,492	-	-	(660,583)
Community Environment	85,420	232,408	-	616,433	763,421
Basic Utility Services	3,406,465	-	-	-	(3,406,465)
Transportation	3,231,909	998,530	640,421	-	(1,592,958)
General Government	3,442,257	1,496,429	245,603	-	(1,700,225)
Interest and Fiscal Charges	97,505	-	-	-	(97,505)
Total Governmental activities	<u>\$ 19,970,718</u>	<u>\$ 3,178,174</u>	<u>\$ 1,085,369</u>	<u>616,433</u>	<u>(15,090,742)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					826,302
Debt Service Purpose					149,941
Other Purposes					600,931
Municipal Income Taxes levied for:					
General Purposes					10,217,437
Debt Service Purpose					828,442
Other Taxes					60,898
Grants & Entitlements not restricted to specific programs					309,059
Investment Income					201,837
Gain on Sale of Capital Assets					11,505
All Other Revenues					49,654
Total General Revenues					<u>13,256,006</u>
Change in Net Position					(1,834,736)
Net Position- Beginning of Year - Restated					<u>35,330,154</u>
Net Position - End of Year					<u>\$ 33,495,418</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, 2020

	General Fund	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 7,916,579	\$ 309,710	\$ 2,631,406	\$ 3,176,455	\$ 14,034,150
Materials and Supplies Inventory	26,731	-	-	103,050	129,781
Accrued Interest Receivable	22,332	-	-	-	22,332
Accounts Receivable	81,739	-	-	-	81,739
Intergovernmental Receivable	106,036	4,839	-	319,183	430,058
Prepaid Items	131,406	-	-	284	131,690
Municipal Income Taxes Receivable	3,043,209	246,747	-	-	3,289,956
Property Taxes Receivable	850,670	76,762	-	613,337	1,540,769
Special Assessments Receivable	12,358	-	-	638,104	650,462
Total Assets	12,191,060	638,058	2,631,406	4,850,413	20,310,937
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 122,364	\$ -	\$ 13,594	\$ 141,687	\$ 277,645
Accrued Wages and Benefits	280,542	-	-	22,839	303,381
Intergovernmental Payable	58,101	-	-	115,260	173,361
Retainage Payable	-	-	46,068	-	46,068
Unearned Revenue	-	-	-	154,950	154,950
Total Liabilities	461,007	-	59,662	434,736	955,405
Deferred Inflows of Resources:					
Property Tax	807,521	73,413	-	587,289	1,468,223
Unavailable Revenue - Delinquent Property Tax	35,816	3,256	-	26,048	65,120
Unavailable Revenue - Income Tax	971,387	78,761	-	-	1,050,148
Unavailable Revenue - Other	141,423	4,839	-	863,204	1,009,466
Total Deferred Inflows of Resources	1,956,147	160,269	-	1,476,541	3,592,957
Fund Balances:					
Nonspendable	177,112	-	-	103,331	280,443
Restricted	-	477,789	-	2,806,473	3,284,262
Committed	-	-	2,571,744	54,814	2,626,558
Assigned	1,912,765	-	-	-	1,912,765
Unassigned (Deficit)	7,684,029	-	-	(25,482)	7,658,547
Total Fund Balances	9,773,906	477,789	2,571,744	2,939,136	15,762,575
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,191,060	\$ 638,058	\$ 2,631,406	\$ 4,850,413	\$ 20,310,937

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, 2020

Total Governmental Funds Balance		\$ 15,762,575
<i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds		42,641,878
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:		
Delinquent Property taxes	\$ 65,120	
Municipal income taxes	1,050,148	
Special assessments	650,462	
Intergovernmental	317,037	
Charges for services	41,967	
Total		2,124,734
In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(18,918)
The net pension/OPEB 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	2,596,406	
Deferred Inflows - Pension	(2,263,888)	
Net Pension Liability	(15,513,525)	
Deferred Outflows- OPEB	2,408,821	
Deferred Inflows-OPEB	(2,507,991)	
Net OPEB Liability	(4,349,252)	
Total		(19,629,429)
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	(\$1,180,000)	
Unamortized bond premiums	(80,431)	
Deferral of loss on refunding	12,280	
OPWC Loan	(2,717,757)	
Compensated absences	(1,669,514)	
Bond anticipation notes	(1,750,000)	
Total		(7,385,422)
Net Position of Governmental Activities		\$ 33,495,418

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, 2020

	General Fund	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 818,892	\$ 149,267	\$ -	\$ 595,543	\$ 1,563,702
Municipal Income Taxes	10,764,050	872,762	-	-	11,636,812
Other Taxes	-	25,385	-	22,514	47,899
Intergovernmental	214,172	9,677	-	1,110,648	1,334,497
Interest	92,081	-	109,675	81	201,837
Fees, Licenses, and Permits	348,184	-	-	8,902	357,086
Charges for Services	481,207	-	693,732	68,892	1,243,831
Contributions and Donations	5	-	-	-	5
Special Assessments	6,157	-	-	883,595	889,752
All Other Revenues	1,261,044	-	-	48,295	1,309,339
Total Revenues	13,985,792	1,057,091	803,407	2,738,470	18,584,760
EXPENDITURES					
Security of Persons and Property	7,104,329	-	(654,800)	1,124,416	7,573,945
Public Health Services	72,486	-	-	14,412	86,898
Leisure Time Activities	3,347	-	48,025	453,463	504,835
Community Environment	73,525	-	-	4,610	78,135
Basic Utility Services	2,340,886	-	43,250	-	2,384,136
Transportation	-	-	1,740,458	755,166	2,495,624
General Government	2,910,210	42,963	45,819	248,973	3,247,965
Capital Outlay	-	-	1,061,761	-	1,061,761
Debt Service:					
Principal Retirement	-	394,946	-	527,192	922,138
Interest and Fiscal Charges	-	42,347	-	58,950	101,297
Total Expenditures	12,504,783	480,256	2,284,513	3,187,182	18,456,734
Excess of Revenues (Under) Expenditures	1,481,009	576,835	(1,481,106)	(448,712)	128,026
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	11,505	-	-	-	11,505
Issuance of Bond Anticipation Notes	-	1,750,000	-	-	1,750,000
Premium on Debt Issuance	-	17,413	-	-	17,413
Transfers In	-	-	2,000,000	610,695	2,610,695
Transfers Out	(2,605,000)	-	-	(5,695)	(2,610,695)
	-	-	-	-	-
Total Other Financing Sources (Uses)	(2,593,495)	1,767,413	2,000,000	605,000	1,778,918
Net Change in Fund Balances	(1,112,486)	2,344,248	518,894	156,288	1,906,944
Fund Balances - Beginning of Year	10,884,838	(1,866,459)	2,052,850	2,896,527	13,967,756
Increase (Decrease) in Inventory	1,554	-	-	(113,679)	(112,125)
Fund Balances - End of Year	\$ 9,773,906	\$ 477,789	\$ 2,571,744	\$ 2,939,136	\$ 15,762,575

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, 2020

Net Change in Fund Balances-Total Governmental Funds		1,906,944
<i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Outlay	1,061,761	
Depreciation	<u>(2,216,846)</u>	
Total		(1,155,085)
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.		
		(29,401)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	13,472	
Municipal income taxes	(590,933)	
Special assessments	42,688	
Intergovernmental	60,044	
Charges for services	<u>14,446</u>	
Total		(460,283)
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 notes and the related premium.		
		(1,767,413)
Repayment of debt principal expenditures in the Governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position.		
		922,138
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows		
Pension	1,283,968	
OPEB	<u>27,864</u>	
Total		1,311,832
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
Pension	(2,113,290)	
OPEB	(324,720)	
Total		(2,438,010)
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	(17,125)	
Accrued interest on bonds	(10,256)	
Amortization of bond premiums	26,328	
Amortization of loss on refunding	(12,280)	
Change in inventory	<u>(112,125)</u>	
Total		<u>(125,458)</u>
Change in Net Position of Governmental Activities		<u><u>(1,834,736)</u></u>

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$ 806,647	\$ 819,565	\$ 818,892	\$ (673)
Municipal Income Taxes	10,634,203	10,804,508	10,795,632	(8,876)
Intergovernmental	210,043	213,406	213,231	(175)
Interest	53,211	54,063	54,019	(44)
Fees, Licenses, and Permits	343,905	349,413	349,126	(287)
Charges for Services	497,735	505,706	505,291	(415)
Contributions and Donations	5	5	5	(0)
Special Assessments	6,065	6,162	6,157	(5)
All Other Revenues	1,232,902	1,252,647	1,251,618	(1,029)
Total Revenues	13,784,716	14,005,475	13,993,971	(11,504)
Expenditures				
Current:				
Security of Persons & Property	7,749,231	7,721,106	7,076,144	644,962
Public Health Services	71,025	74,525	74,045	480
Leisure Time Activities	63,351	14,351	9,522	4,829
Community Environment	112,208	112,958	74,179	38,779
Basic Utility Services	2,528,871	2,526,871	2,338,467	188,404
General Government	3,107,108	3,283,858	2,997,343	286,515
Total Expenditures	13,631,794	13,733,669	12,569,700	1,163,969
Excess of Revenues Over (Under) Expenditures	152,922	271,806	1,424,271	1,152,465
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	11,505	11,505
Transfers Out	(2,605,000)	(2,605,000)	(2,605,000)	-
Total Other Financings Sources (Uses)	(2,605,000)	(2,605,000)	(2,593,495)	11,505
Net Change in Fund Balance	(2,452,078)	(2,333,194)	(1,169,224)	1,163,970
Fund Balance - Beginning of Year	8,725,613	8,725,613	8,725,613	-
Prior Year Encumbrances Appropriated	130,156	130,156	130,156	-
Fund Balance - End of Year	\$ 6,403,691	\$ 6,522,575	\$ 7,686,545	\$ 1,163,970

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

City of Highland Heights, Ohio

Statement of Fiduciary Net Position Custodial Fund December 31, 2020

	<u>Custodial Fund</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 243
Total Assets	<u>243</u>
LIABILITIES	
Due to External Parties	189
Total Liabilities	<u>\$ 189</u>
NET POSITION	
Restricted For:	
Individuals, Organizations, and Other Governments	54
Total Net Position	<u>\$ 54</u>

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

City of Highland Heights, Ohio

Statement of Changes in Fiduciary Net Position Custodial Fund For the Year Ended December 31, 2020

	<u>Custodial Fund</u>
ADDITIONS	
Licenses, Permits, & Fees Distributions for Other Governments	\$ 3,998
Total Additions	<u>3,998</u>
DEDUCTIONS	
Licenses, Permits, & Fees Distributions to Other Governments	<u>3,944</u>
Total Deductions	<u>3,944</u>
Net Increase in Fiduciary Net Position	54
Net Position - Beginning of Year	-
Net Position - End of Year	<u><u>\$ 54</u></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, 2020

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 four organizations which are defined as jointly governed organizations. The jointly governed organizations are 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 is 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, 2020

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, 2020

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.

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 custodial 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. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's fiduciary funds are custodial funds. The City has one custodial fund used to account for the OBBC 1% and 3% collection fees.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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, 2020

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

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, pension and OPEB 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 and OPEB are explained in Note 11 and Note 12.

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 OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2020, but which were levied to finance year 2021 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, 2020

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 and OPEB are reported on the government-wide statement of net position. (See Note 11 and Note 12).

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 2020, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposits, a money market mutual fund, U.S. Treasury Securities, a U.S. Government Bond, 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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

E. **Equity in Pooled Cash and Investments** (Continued)

For 2020, there were no limitation 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 \$100 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2020 amounted to \$92,081, which includes \$21,774 assigned from other funds.

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, 2020, 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

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:

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

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

J. **Compensated Absences** (Continued)

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.

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

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. 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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.

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 2020.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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 2020, 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

Q. **Budgetary Data** (Continued)

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/Other Postemployment Benefits (OPEB)**

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

NOTE 3: **RESTATEMENTS OF NET POSITION**

During 2020, the City restated the net position of the governmental activities to correct unrecorded infrastructure as of December 31, 2019.

	Governmental Activities
Net Position December 31, 2019	<u>\$ 32,518,608</u>
Adjustments:	
Depreciable Capital Assets	<u>2,811,546</u>
Restated Net Position December 31, 2019	<u><u>\$ 35,330,154</u></u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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);

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	\$ (1,112,486)
Increase (Decrease) Due to:	
Revenue Accruals	13,690
Expenditure Accruals	93,485
Adjustment for Encumbrances	(167,312)
Funds with Separate Legally Adopted Budgets	3,399
Budgetary Basis	<u>\$ (1,169,224)</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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, 2020

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 Treasury Asset Reserve of Ohio (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, 2020, 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, 2020

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

At December 31, 2020, the carrying amount of all City deposits was \$2,619,971. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2020, \$548,692 of the City's bank balance of \$2,748,680 was covered by Federal Depository Insurance and \$2,137,365 was uninsured and collateralized with securities held by the pledging financial institution's trust department agent, but not in the City's name, and \$62,623 was uninsured and uncollateralized. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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 and the Victory Federal Money Market Mutual Fund are 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 table on the next page identifies the City's recurring measurement values and level inputs as of December 31, 2020. As previously discussed, Star Ohio and the Victory Federal Money Market Mutual Fund are reported at its net asset value. The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs). As of December 31, 2020, fair value was \$47,142 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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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 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 negotiable certificates of deposit represents 29.21 percent of the City's total investments. The remaining investments of the City, STAR Ohio, municipal bond, U.S. Government bond, money market mutual fund, and U.S. Treasury represent 24.45 percent, 22.54 percent, 4.07 percent, 11.42 percent, and 8.31 percent respectively, of the City's total investments.

Cash and investments at year-end were as follows:

Cash and Investment Type	Measurement Value	Credit Rating (*)	Level Input	Investment Maturity (in years)		
				<1	1-2	3-5
STAR Ohio	\$ 2,790,297	AAA _m	N/A	\$ 2,790,297	\$ -	\$ -
Negotiable CD's	3,334,183	N/A	2	286,831	516,065	2,531,287
Municipal Bond	2,572,245	A+/AA/A-	2	1,711,787	124,933	735,525
U.S. Government Bond	465,056	AA+	2	-	-	465,056
Victory Federal Money Market Mutual Fund	1,303,566	AAA	N/A	1,303,566	-	-
U.S. Treasury / Agency Securities	948,375	N/A	2	-	-	948,375
Total Investments	11,413,722			\$ 6,092,481	\$ 640,998	\$ 4,680,243
Carrying Amount of Deposits	2,619,971					
Petty Cash	700					
Total Cash and Investments	\$ 14,034,393					

* 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, 2020

NOTE 6: RECEIVABLES

Receivables at December 31, 2020, 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 2020 for real and public property taxes represents collections of 2019 taxes. Property tax payments received during 2020 for tangible personal property (other than public utility property) are for 2020 taxes.

2020 real property taxes are levied after October 1, 2020, on the assessed value as of January 1, 2021, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2020 real property taxes are collected in and intended to finance 2021.

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. 2020 public utility property taxes which became a lien at December 31, 2019, are levied after October 1, 2020, and are collected in 2021 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2020, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2020 property tax receipts were based are as follows:

Real Property	\$420,960,650
Public Utility Tangible Property	<u>4,679,310</u>
Total	<u>\$425,639,960</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, 2020

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, 2020, 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 2020 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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

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, 2020, special assessments expected to be collected in more than one year amount to \$650,462 including delinquent special assessments of \$340,667.

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	\$ 242,869
Local Government	52,803
Homestead and Rollback Reimbursement	96,785
Auto Registration	31,935
Permissive Tax	<u>5,666</u>
Total Intergovernmental Receivables	<u>\$ 430,058</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 131,406	\$ -	\$ -	\$ 281	\$ 131,687
Inventories	26,731	-	-	103,050	129,781
Unclaimed Funds	18,975	-	-	-	18,975
<i>Total Nonspendable</i>	<u>177,112</u>	<u>-</u>	<u>-</u>	<u>103,331</u>	<u>280,443</u>
<i>Restricted for</i>					
Police Pension	-	-	-	129,986	129,986
Fire Pension	-	-	-	90,465	90,465
Parks and Recreation	-	-	-	783,348	783,348
Other Law Enforcement	-	-	-	91,508	91,508
Streets and Highways	-	-	-	1,111,781	1,111,781
Street Lighting	-	-	-	355,592	355,592
FEMA Fire Assistance	-	-	-	11,768	11,768
NOPEC POC Grant	-	-	-	2,001	2,001
Other Grants	-	-	-	2,146	2,146
Debt Service	-	477,789	-	206,523	684,312
Local Coronavirus Relief	-	-	-	21,355	21,355
<i>Total Restricted</i>	<u>-</u>	<u>477,789</u>	<u>-</u>	<u>2,806,473</u>	<u>3,284,262</u>
<i>Committed to</i>					
Capital Improvements	-	-	2,571,744	-	2,571,744
Parks and Recreation Improvements	-	-	-	1,452	1,452
Street Trees	-	-	-	7,472	7,472
White Road Development	-	-	-	45,890	45,890
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>2,571,744</u>	<u>54,814</u>	<u>2,626,558</u>
<i>Assigned to</i>					
Purchases on Order					
Basic Utility	18,173	-	-	-	18,173
Community Environment	852	-	-	-	852
General Government	58,921	-	-	-	58,921
Leisure Time Activities	6,175	-	-	-	6,175
Public Health	6,000	-	-	-	6,000
Security of Persons and Property	31,106	-	-	-	31,106
Fiscal Year 2021 Appropriations	1,791,538	-	-	-	1,791,538
<i>Total Assigned</i>	<u>1,912,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,912,765</u>
<i>Unassigned</i>	7,684,029	-	-	(25,482)	7,658,547
Total Fund Balances	<u>\$ 9,773,906</u>	<u>\$ 477,789</u>	<u>\$ 2,571,744</u>	<u>\$ 2,939,136</u>	<u>\$ 15,762,575</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 8: INTERFUND TRANSFERS

Transfers made during the year end December 31, 2020 were as follow:

	Transfers In			
Transfers Out	General	Capital Improvement	Nonmajor Governmental Funds	Total
General		\$ 2,000,000	\$ 605,000	\$ 2,605,000
Nonmajor Governmental Funds	-	-	5,695	5,695
Total	\$ -	\$ 2,000,000	\$ 610,695	\$ 2,610,695

The General Fund transferred \$300,000 to the Police Pension Fund and \$305,000 to the Fire Pension Fund for pension obligation payments. In addition, the General Fund transferred \$2,000,000 to the Capital Improvement Fund for the purposes of capital improvement purchases. The Juvenile Diversion Fund transferred \$5,695 to the Law Enforcement and Education Fund to isolate only proceeds received by the Cuyahoga County Juvenile Diversion program to that fund apart from City contributions to the Juvenile Diversion program.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2020 follows:

	Restated Balance 1/1/2020	Additions	Disposals	Balance 12/31/2020
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Total Capital Assets Not Being Depreciated	<u>1,679,660</u>	<u>-</u>	<u>-</u>	<u>1,679,660</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,289,092	-	-	2,289,092
Buildings	7,488,537	-	-	7,488,537
Machinery and Equipments	2,699,660	265,669	(80,144)	2,885,185
Furniture and Fixtures	61,416	38,701	-	100,117
Vehicles	3,151,016	757,391	(67,146)	3,841,261
Infrastructures				
Roads	29,492,392	-	-	29,492,392
Water Mains	14,446,875	-	-	14,446,875
Sanitary Sewers	13,862,512	-	-	13,862,512
Storm Sewers	17,676,637	-	-	17,676,637
Culverts	219,885	-	-	219,885
Bridges	216,549	-	-	216,549
Traffic Signals	84,068	-	-	84,068
Totals at Historical Cost	<u>91,688,639</u>	<u>1,061,761</u>	<u>(147,290)</u>	<u>92,603,110</u>
Less Accumulated Depreciation:				
Land Improvements	(1,721,302)	(119,335)	-	(1,840,637)
Buildings	(5,675,216)	(213,524)	-	(5,888,740)
Machinery and Equipments	(1,623,869)	(158,065)	54,099	(1,727,835)
Furniture and Fixtures	(49,349)	(2,207)	-	(51,556)
Vehicles	(2,107,495)	(314,897)	63,790	(2,358,602)
Infrastructures				
Roads	(13,827,353)	(518,500)	-	(14,345,853)
Water Mains	(7,089,544)	(249,855)	-	(7,339,399)
Sanitary Sewers	(7,365,005)	(255,644)	-	(7,620,649)
Storm Sewers	(9,803,696)	(375,543)	-	(10,179,239)
Culverts	(132,209)	(3,867)	-	(136,076)
Bridges	(82,289)	(4,331)	-	(86,620)
Traffic Signals	(64,608)	(1,078)	-	(65,686)
Total Accumulated Depreciation	<u>(49,541,935)</u>	<u>(2,216,846) *</u>	<u>117,889</u>	<u>(51,640,892)</u>
Total Capital Assets, being Depreciated, Net	42,146,704	(1,155,085)	(29,401)	40,962,218
Governmental Activities Capital Assets, Net	<u>\$ 43,826,364</u>	<u>\$ (1,155,085)</u>	<u>\$ (29,401)</u>	<u>\$ 42,641,878</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 101,412
Security of Persons and Property	368,191
Basic Utilities	884,909
Community Environment	2,285
Leisure Time Activities	183,859
Transportation	676,190
Total Depreciation Expense	\$ 2,216,846

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: **DEFINED BENEFIT PENSION PLANS**

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.

Ohio Revised Code limits the City's obligation for this liability to annually required payments.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

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 basis of accounting.

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

Plan Description - City employees 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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

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' Comprehensive Annual Financial Report 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 62 with 60 months of service credit or Age 57 with 25 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. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of the annual cost-of-living adjustment.

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. 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.

A death benefit of \$500 - \$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Tradition pension plan and the Combined Plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers. It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the members' contributions plus or minus the investment gains or losses resulting from the members' investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

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

	State and Local
2020 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2020 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

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

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

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer’s contribution allocated to health care was 0% for 2020 for the Traditional and Combined plans. The portion of the employer’s contribution allocated to health care was 4% for the Member-Directed plan for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$377,643 for fiscal year ending December 31, 2020. Of this amount, \$30,512 is reported as an intergovernmental payable.

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. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

The report may be obtained by visiting the OP&F 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. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the members' base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

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

	Police	Firefighters
2020 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2020 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$906,325 for 2020. Of this amount, \$76,231 is reported as an intergovernmental payable.

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

The net pension liability/asset for OPERS was measured as of December 31, 2019, and the total pension liability/asset used to calculate the net pension liability/asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2019, and was determined by rolling forward the total pension liability as of January 1, 2019, to December 31, 2019. The City's proportion of the net pension liability/asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability/Asset Prior Measurement Date	0.020374%	0.0848430%	0.0857770%	
Proportion of the Net Pension Liability/Asset Current Measurement Date	0.019521%	0.0864501%	0.0865627%	
Change in Proportionate Share	-0.000853%	0.0016071%	0.0007857%	
 Proportionate Share of the Net Pension Liability/(Asset)	 \$ 3,858,458	 \$ 5,823,741	 \$ 5,831,326	 \$ 15,513,525
Pension Expense	\$ 581,741	\$ 760,235	\$ 771,314	\$ 2,113,290

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Deferred Outflows of Resources				
Differences between expected and actual experience	-	220,446	220,735	441,181
Changes of assumptions	206,086	142,957	143,144	492,187
Changes in proportion and differences between City contributions and proportionate share of contributions	5,118	216,993	156,959	379,070
City contributions subsequent to the measurement date	<u>377,643</u>	<u>436,651</u>	<u>469,674</u>	<u>1,283,968</u>
Total Deferred Outflows of Resources	<u>\$ 588,847</u>	<u>\$ 1,017,047</u>	<u>\$ 990,512</u>	<u>\$ 2,596,406</u>
Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$ 769,674	\$ 281,330	\$ 281,703	\$ 1,332,707
Differences between expected and actual experience	48,786	300,353	300,743	649,882
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>112,901</u>	<u>91,262</u>	<u>77,136</u>	<u>281,299</u>
Total Deferred Inflows of Resources	<u>\$ 931,361</u>	<u>\$ 672,945</u>	<u>\$ 659,582</u>	<u>\$ 2,263,888</u>

\$1,283,968 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, 2021.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

D. 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
2021	\$ (157,525)	\$ (45,174)	\$ (35,151)	\$ (237,850)
2022	(288,893)	21,323	(2,130)	(269,700)
2023	31,872	176,503	158,492	366,867
2024	(305,611)	(226,886)	(237,923)	(770,420)
2025	-	(18,315)	(22,032)	(40,347)
Thereafter	-	-	-	-
Total	(\$720,157)	(\$92,549)	(\$138,744)	(\$951,450)

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, 2019, 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. 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	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA	Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 1.40 percent, simple through 2020, then 2.15 percent simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the previously 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.

OPERS manages investments in three investment portfolios: the Defined Benefits portfolio, the Health Care 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. 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 was at a gain of 17.23 percent for 2019.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	25.00 %	1.83 %
Domestic Equities	19.00	5.75
Real Estate	10.00	5.20
Private Equity	12.00	10.70
International Equities	21.00	7.66
Other investments	13.00	4.98
Total	<u>100.00 %</u>	5.61 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 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 7.2 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 (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
City's proportionate share of the net pension liability	\$ 6,363,846	\$ 3,858,458	\$ 1,606,188

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

Changes Between Measurement Date and Report Date

Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time.

F. **Actuarial Assumptions – OP&F**

OP&F's total pension liability as of December 31, 2019 is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2019, are presented below:

Valuation Date	January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple, 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

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

The most recent experience study was completed December 31, 2016.

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, 2020

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (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, 2019 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	0.00 %	0.10 %	1.00 %
Domestic Equity	16.00	3.90	5.40
International Equity	16.00	4.70	5.80
Core Fixed Income *	23.00	1.10	2.70
U.S. Inflation Linked Bonds *	17.00	0.40	2.50
High Yield Fixed Income	7.00	2.50	4.70
Private Real Estate	12.00	5.40	6.40
Private Markets	8.00	6.10	8.00
Midstream Energy Infrastructure	8.00	5.80	6.60
Private Credit	5.00	4.80	5.50
Real Assets	8.00	6.90	7.40
 Total	 <u>120.00 %</u>		

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

F. **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 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 16,153,517	\$ 11,655,067	\$ 7,892,559

Changes Between Measurement Date and Report Date

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of OP&F, including the fair value of OP&F's investment portfolio. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that may be recognized in subsequent periods cannot be determined with half of the fiscal year remaining. In addition, the impact on the OP&F's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 12: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability**

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

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

A. **Net OPEB 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 OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Comprehensive Annual Financial Report referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care was no longer being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, beginning January 1, 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2020 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$6,380 for 2020.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) a cost-sharing, multiple-employer defined post-employment healthcare plan that provides various levels of health care to retired, disabled and beneficiaries, as well as their dependents. On January 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses. As a result of this change, it is expected that the solvency of the Health Care Stabilization Fund (HCSF) will be extended allowing OP&F to provide stipends to eligible participants.

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

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

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

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

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

C. **Plan Description – Ohio Police & Fire Pension Fund (OP&F)** (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. For 2020, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The City's contractually required contribution to OP&F was \$21,484 for 2020. Of this amount, \$1,800 is reported as an intergovernmental payable.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2019, and was determined by rolling forward the total OPEB liability as of January 1, 2019, to December 31, 2019. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.039015%	0.1706198%	
Proportion of the Net OPEB Liability			
Current Measurement Date	0.019115%	0.1730128%	
Change in Proportionate Share	-0.019900%	0.0023930%	
Proportionate Share of the Net OPEB			
Liability	\$ 2,640,278	\$ 1,708,974	\$ 4,349,252
OPEB Expense	\$ 99,853	\$ 224,867	\$ 324,720

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 71	\$ -	\$ 71
Changes of assumptions	417,927	999,131	1,417,058
Changes in proportion and differences between City contributions and proportionate share of contributions	706,269	257,559	963,828
City contributions subsequent to the measurement date	6,380	21,484	27,864
Total Deferred Outflows of Resources	\$ 1,130,647	\$ 1,278,174	\$ 2,408,821
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 241,466	\$ 183,785	\$ 425,251
Changes of assumptions	-	364,208	364,208
Net difference between projected and actual earnings on OPEB plan investments	134,444	78,642	213,086
Changes in proportion and differences between City contributions and proportionate share of contributions	1,505,446	-	1,505,446
Total Deferred Inflows of Resources	\$ 1,881,356	\$ 626,635	\$ 2,507,991

\$27,864 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2021.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

Year Ending December 31:	OPERS	OP&F	Total
2021	\$ (138,539)	\$ 117,397	\$ (21,142)
2022	(561,208)	117,395	(443,813)
2023	105	133,528	133,633
2024	(57,447)	108,094	50,647
2025	-	112,646	112,646
Thereafter	-	40,995	40,995
Total	\$ (757,089)	\$ 630,055	\$ (127,034)

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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.16 percent
Prior Measurement date	3.96 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate	2.75 percent
Health Care Cost Trend Rate	10.5 percent, initial 3.25 percent, ultimate in 2030
Actuarial Cost Method	Individual Entry Age

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

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

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 19.70 percent for 2019.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – OPERS (Continued)

The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	36.00 %	1.53 %
Domestic Equities	21.00	5.75
Real Estate Investment Trust	6.00	5.69
International Equities	23.00	7.66
Other investments	14.00	4.90
Total	<u>100.00 %</u>	4.55 %

Discount Rate A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.75 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.16 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16 percent) or one-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
City’s proportionate share of the net OPEB liability	\$3,455,227	\$2,640,278	\$1,987,769

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City’s proportionate share of the net OPEB liability	\$2,562,366	\$2,640,278	\$2,717,197

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Changes Between Measurement Date and Report Date

Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time.

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are not reflected in the current year financial statements but are expected to decrease the associated OPEB liability.

F. **ACTUARIAL ASSUMPTIONS – OP&F**

OP&F's total OPEB liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

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

Valuation Date	January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.56 percent
Prior measurement date	4.66 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

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

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019, 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	0.00 %	0.10 %	1.00 %
Domestic Equity	16.00	3.90	5.40
Non-US Equity	16.00	4.70	5.80
Core Fixed Income *	23.00	1.10	2.70
U.S. Inflation Linked Bonds *	17.00	0.40	2.50
High Yield Fixed Income	7.00	2.50	4.70
Real Estate	12.00	6.90	7.40
Private Markets	8.00	6.10	8.00
Master Limited Partnerships	8.00	5.80	6.60
Private Credit	5.00	4.80	5.50
Real Assets	8.00	6.90	7.40
Total	<u>120.00 %</u>		

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Discount Rate The total OPEB liability was calculated using the discount rate of 3.56 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.75 percent at December 31, 2019 and 4.13 percent at December 31, 2018, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.56 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index.

The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2034. The long-term expected rate of return on health care investments was applied to projected costs through 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.56 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56 percent), or one percentage point higher (4.56 percent) than the current rate.

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
City’s proportionate share of the net OPEB liability	\$2,119,017	\$1,708,974	\$1,368,256

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate because it is based on a medical benefit that is a flat dollar amount.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Changes Between Measurement Date and Report Date

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of OP&F, including the fair value of OP&F’s investment portfolio. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that may be recognized in subsequent periods cannot be determined with half of the fiscal year remaining. In addition, the impact on the OP&F’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 13: **SHORT-TERM OBLIGATIONS**

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

	Principal Outstanding 12/31/2019	Additions	Deletions	Principal Outstanding 12/31/2020
<u>Governmental Activities</u>				
<i>Bond Anticipation Notes</i>				
Various Purpose Street Improvement Anticipation Notes, Series 2019, 2,350,000, 3.0%	2,350,000	\$ -	(2,350,000)	\$ -
Unamortized Note Premium	13,742	\$ -	(13,742)	\$ -
<i>Total Bond Anticipation Notes</i>	\$ 2,363,742	\$ -	\$ (2,363,742)	\$ -

On June 10, 2020, the City issued \$1,750,000 in Various Purpose Improvement Notes for an interest rate of 1.50%, maturing on June 10, 2021. The proceeds were used to retire the outstanding short-term 2019 Various Purpose Improvement Notes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2020, are as follow:

	Principal Outstanding 12/31/2019	Additions	Deletions	Principal Outstanding 12/31/2020	Amounts Due in One Year
<u>Governmental Activities</u>					
<u>Bond Anticipation Notes</u>					
Various Purpose Street Improvement Anticipation Notes, Series 2020, \$1,750,000 1.50%	\$ -	\$ 1,750,000	\$ -	\$ 1,750,000	\$ 1,750,000
Unamortized Note Premium	-	17,413	(9,819)	7,594	-
Total Bond Anticipation Notes	-	1,767,413	(9,819)	1,757,594	1,750,000
<u>General Obligation Bonds</u>					
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	780,000	-	(95,000)	685,000	100,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125%	825,000	-	(330,000)	495,000	265,000
Total General Obligation Bonds	1,605,000	-	(425,000)	1,180,000	365,000
<u>Special Assessment Bonds (a)</u>					
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	350,000	-	(350,000)	-	-
Total Special Assessment Bonds	350,000	-	(350,000)	-	-
<u>Direct Borrowings</u>					
<u>Ohio Public Works Commission</u>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	82,030	-	(41,016)	41,014	41,014
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	72,023	-	(24,008)	48,015	48,015
1998 \$145,238 Millridge Water Main Replacement, 0%	3,630	-	(3,630)	-	-
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	85,842	-	(17,169)	68,673	51,507
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	362,216	-	(15,749)	346,467	47,247
2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0%	583,780	-	(17,170)	566,610	51,510
2015 \$1,703,770 Highland Road Water Main Replacement, 0%	1,675,374	-	(28,396)	1,646,978	85,188
Total Ohio Public Works Commission	2,864,895	-	(147,138)	2,717,757	324,481

(Continued)

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Principal Outstanding 12/31/2019	Additions	Deletions	Principal Outstanding 12/31/2020	Amounts Due in One Year
<i>Other Long-term Liabilities</i>					
Unamortized Bond Premium	\$ 89,346	\$ -	\$ (16,509)	\$ 72,837	\$ -
Net Pension Liability					
OPERS	5,580,026	-	(1,721,568)	3,858,458	-
OP&F	13,927,101	-	(2,272,034)	11,655,067	-
Total Net Pension Liability	19,507,127	-	(3,993,602)	15,513,525	-
Net OPEB Liability					
OPERS	5,086,635	-	(2,446,357)	2,640,278	-
OP&F	1,553,755	155,219	-	1,708,974	-
Total OPEB Liability	6,640,390	155,219	(2,446,357)	4,349,252	-
Compensated Absences	1,652,389	686,522	(669,397)	1,669,514	673,865
<i>Total Other Long-term Liabilities</i>	27,889,252	841,741	(7,125,865)	21,605,128	673,865
Total Governmental Long-Term Liabilities	\$ 32,709,147	\$ 2,609,154	\$ (8,057,822)	\$ 27,260,479	\$ 3,113,346

(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 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 \$495,000 as of December 31, 2020.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond Retirement Fund, except for the 2007 Aberdeen Business Park Improvement Bond. This bond is paid out of the Special Assessment Bond Retirement Fund since it is payable from proceeds of assessments.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment Bond Retirement Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. The 1999 Aberdeen Boulevard Bond was retired in 2020.

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 thirty years. As of December 31, 2020, the loan balance for the portion of the project completed was \$1,646,978.

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.

The City' direct borrowing from OPWC in the amount of \$2,717,757 contain a provision that in the event of default the amount of such default shall bear interest thereafter at the rate of 8 percent per annum until the date of payment, and outstanding amounts become immediately due. Also, OPWC may direct the county treasurer to pay the outstanding amount from portion of the local government fund that would otherwise be appropriated to the City.

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2020, the City's overall debt margin was \$42,438,914 with an unvoted debt margin of \$21,156,916.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2020, from the general resources of the City are as follows:

Year	General Obligation Bonds		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 365,000	\$ 49,388	\$ 324,481	\$ -	\$ 689,481	\$ 49,388
2022	180,000	36,438	139,798	-	319,798	36,438
2023	185,000	28,844	122,629	-	307,629	28,844
2024	195,000	21,000	122,629	-	317,629	21,000
2025	125,000	12,750	122,629	-	247,629	12,750
2026-2030	130,000	6,500	613,147	-	743,147	6,500
2031-2035			471,410	-	471,410	-
2036-2040	-	-	318,302	-	318,302	-
2041-2045			283,962	-	283,962	-
2046-2049			198,770	-	198,770	-
Totals	<u>\$ 1,180,000</u>	<u>\$ 154,920</u>	<u>\$ 2,717,757</u>	<u>\$ -</u>	<u>\$ 3,897,757</u>	<u>\$ 154,920</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.

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 2020, the City of Highland Heights paid \$71,056 in premiums from the General Fund, which represents 4.3 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 16: **RISK MANAGEMENT**

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

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

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

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

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

The medical and prescription benefits are provided through Cigna from January 1 through December 31, 2020. Dental and vision benefits are provided through Delta Dental and Vision Benefits of America. 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 \$663.27 for single coverage; \$1,399.52 for employee and spouse coverage; \$1,265.66 for employee and children coverage; and \$2,001.89 for family coverage. The monthly premium for dental and vision benefits is \$31.57 for single coverage and \$91.58 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 18: **JOINTLY GOVERNED ORGANIZATION**

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2020, the City contributed \$78,047. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

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 \$22,800 to ESCOG in 2020.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

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

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 2020. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

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, 2020, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 167,312
Capital Improvement	480,727
General Bond Retirement	64,946
Nonmajor Funds:	
Special Revenue Funds	386,903
General Bond Retirement Funds	82,192
Total	<u>\$ 1,182,080</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2020

NOTE 20: ACCOUNTABILITY

Fund balances at December 31, 2020 included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Governmental Funds	
Performance Bonds	3,355
Inspection Bond	22,113
Misc. Trust & Agency	14
Total Nonmajor Governmental Funds	<u>25,482</u>
Total Governmental Funds:	<u>\$ 25,482</u>

The General Fund is liable for any deficits in this fund and provides transfers when cash is required not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities in accordance with generally accepted accounting principles (GAAP).

NOTE 21: COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The investments of the pension and other employee benefit plan in which the City participates fluctuate with market conditions, and due to market volatility, the amounts of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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 Seven Years (1)

<u>Traditional Plan</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.019521%	0.020374%	0.020274%	0.019893%	0.020421%	0.020421%	0.020421%
City's Proportionate Share of the Net Pension Liability	\$ 3,858,458	\$ 5,580,026	\$ 3,180,598	\$ 4,517,362	\$ 3,519,331	\$ 2,463,001	\$ 2,407,370
City's Covered Payroll	\$ 2,746,614	\$ 2,751,929	\$ 2,679,192	\$ 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 Payroll	140.48%	202.77%	118.71%	175.67%	139.17%	98.05%	87.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	74.70%	84.66%	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.

See accompanying notes to the required supplementary information

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 Seven Years (1)

Police	2020	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0864501%	0.0848430%	0.0832190%	0.0807100%	0.0832094%	0.0877892%	0.0877892%
City's Proportionate Share of the Net Pension Liability	\$ 5,823,741	\$ 6,925,431	\$ 5,107,541	\$ 5,112,113	\$ 5,352,922	\$ 4,547,845	\$ 4,275,609
City's Covered Payroll	\$ 2,279,963	\$ 2,137,626	\$ 1,994,342	\$ 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 Payroll	255.43%	323.98%	256.10%	262.87%	280.60%	235.37%	180.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.89%	63.07%	70.91%	68.36%	66.77%	71.71%	73.00%
Fire	2020	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0865627%	0.0857770%	0.0848360%	0.0822870%	0.0864334%	0.0859751%	0.0859751%
City's Proportionate Share of the Net Pension Liability	\$ 5,831,326	\$ 7,001,670	\$ 5,206,745	\$ 5,211,991	\$ 5,560,323	\$ 4,453,869	\$ 4,187,257
City's Covered Payroll	\$ 1,854,885	\$ 1,736,417	\$ 1,672,387	\$ 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 Payroll	314.38%	403.23%	311.34%	324.19%	350.60%	290.51%	236.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.89%	63.07%	70.91%	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.

See accompanying notes to the required supplementary information

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contributions	\$ 377,643	\$ 384,526	\$ 385,270	\$ 348,295
Contributions in Relation to the Contractually Required Contribution	<u>(377,643)</u>	<u>(384,526)</u>	<u>(385,270)</u>	<u>(348,295)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 2,697,450	\$ 2,746,614	\$ 2,751,929	\$ 2,679,192
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	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.

See accompanying notes to the required supplementary information

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 308,588	\$ 303,449	\$ 301,429	\$ 357,411
<u>(308,588)</u>	<u>(303,449)</u>	<u>(301,429)</u>	<u>(357,411)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,571,567	\$ 2,528,742	\$ 2,511,908	\$ 2,749,315
12.00%	12.00%	12.00%	13.00%

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions- Pension
Ohio Police and Fire Pension Fund
Last Ten Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Contractually Required Contributions</u>				
Police	\$ 436,651	\$ 433,193	\$ 406,149	\$ 378,925
Fire	<u>469,674</u>	<u>435,898</u>	<u>408,058</u>	<u>393,011</u>
Total Required Contributions	\$ 906,325	\$ 869,091	\$ 814,207	\$ 771,936
Contributions in Relation to the Contractually Required Contribution	<u>(906,325)</u>	<u>(869,091)</u>	<u>(814,207)</u>	<u>(771,936)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll				
Police	\$ 2,298,163	\$ 2,279,963	\$ 2,137,626	\$ 1,994,342
Fire	\$ 1,998,613	\$ 1,854,885	\$ 1,736,417	\$ 1,672,387
<u>Pension Contributions as a Percentage of Covered Payroll</u>				
Police	19.00%	19.00%	19.00%	19.00%
Fire	23.50%	23.50%	23.50%	23.50%

[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.

See accompanying notes to the required supplementary information

2016	2015	2014	2013	2012	2011
\$ 369,504	\$ 362,458	\$ 367,120	\$ 372,895	\$ 355,123	\$ 354,841
<u>377,803</u>	<u>372,693</u>	<u>360,280</u>	<u>357,619</u>	<u>358,019</u>	<u>353,068</u>
\$ 747,307	\$ 735,151	\$ 727,400	\$ 730,514	\$ 713,142	\$ 707,909
<u>(747,307)</u>	<u>(735,151)</u>	<u>(727,400)</u>	<u>(730,514)</u>	<u>(713,142)</u>	<u>(707,909)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,944,758	\$ 1,907,674	\$ 1,932,211	\$ 2,370,598	\$ 2,785,278	\$ 2,783,067
\$ 1,607,672	\$ 1,585,928	\$ 1,533,106	\$ 1,767,766	\$ 2,075,472	\$ 2,046,771
19.00%	19.00%	19.00%	[1]	12.75%	12.75%
23.50%	23.50%	23.50%	[1]	17.25%	17.25%

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.019115%	0.039015%	0.019840%	0.019620%
City's Proportionate Share of the Net OPEB Liability	\$ 2,640,278	\$ 5,086,635	\$ 2,154,478	\$ 1,981,687
City's Covered Payroll	\$ 2,746,614	\$ 2,751,929	\$ 2,679,192	\$ 2,571,567
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	96.13%	184.84%	80.42%	77.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.80%	46.33%	54.14%	54.04%

(1) Information prior to 2017 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 calendar year end.

See accompanying notes to the required supplementary information

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

	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.1730128%	0.1706198%	0.1680550%	0.1630000%
City's Proportionate Share of the Net OPEB Liability	\$ 1,708,974	\$ 1,553,755	\$ 9,521,754	\$ 7,737,243
City's Covered Payroll	\$ 4,134,848	\$ 3,874,043	\$ 3,666,729	\$ 3,552,430
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	41.33%	40.11%	259.68%	217.80%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.08%	46.57%	14.13%	15.96%

(1) Information prior to 2017 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 calendar year end.

See accompanying notes to the required supplementary information

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 6,380	\$ 5,621	\$ 5,628	\$ 28,099	\$ 54,232	\$ 52,739
Contributions in Relation to the Contractually Required Contribution	<u>(6,380)</u>	<u>(5,621)</u>	<u>(5,628)</u>	<u>(28,099)</u>	<u>(54,232)</u>	<u>(52,739)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 2,697,450	\$ 2,746,614	\$ 2,751,929	\$ 2,679,192	\$ 2,571,567	\$ 2,528,742
Contributions as a Percentage of Covered Payroll	0.24%	0.20%	0.20%	1.05%	2.11%	2.09%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 21,484	\$ 20,674	\$ 19,370	\$ 18,334
Contributions in Relation to the Contractually Required Contribution	<u>(21,484)</u>	<u>(20,674)</u>	<u>(19,370)</u>	<u>(18,334)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 4,296,776	\$ 4,134,848	\$ 3,874,043	\$ 3,666,729
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%

See accompanying notes to the required supplementary information

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

2016	2015	2014	2013	2012	2011
\$ 17,762	\$ 18,968	\$ 18,835	\$ 123,052	\$ 223,620	\$ 222,129
<u>(17,762)</u>	<u>(18,968)</u>	<u>(18,835)</u>	<u>(123,052)</u>	<u>(223,620)</u>	<u>(222,129)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,552,430	\$ 3,493,602	\$ 3,465,317	\$ 4,138,364	\$ 4,860,750	\$ 4,829,838
0.50%	0.50%	0.50%	3.62%	6.75%	6.75%

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

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. 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. For 2019, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 7.50% to 7.20%. For 2020, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the cost-of-living adjustments for post-1/7/2013 retirees were reduced from 3.00% simple through 2018 to 1.40% simple through 2020, then 2.15% simple.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018-2020.

Changes in assumptions: For 2018, the single discount rate changed from 4.23% to 3.85%. For 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the expected investment return was reduced from 6.50% to 6.00% (b) In January 2019, the Board adopted changes to health care coverage for Medicare and pre-Medicare retirees. It will include discontinuing the PPO plan for pre-Medicare retirees and replacing it with a monthly allowance to help participants pay for a health care plan of their choosing. The base allowance for Medicare eligible retirees will be reduced. The specific effect of these changes on the net OPEB liability and OPEB expense are unknown at this time (c) the single discount rate changed from 3.85% to 3.96%. For 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the single discount rate changed from 3.96% to 3.16%.

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) 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 2016. For 2019-2020, there have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation of the pension plan as of the measurement date.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018 and 2020. For 2019, see below regarding changes to stipend-based model.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent. For 2019, the changes of assumptions were: (a) beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend-based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years (b) beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5% (c) the single discount rate changed from 3.24 percent to 4.66 percent. For 2020, the single discount rate changed from 4.66 to 3.56.

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

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

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 7, 2022, wherein we noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. Also, the City restated its net position of governmental activities to correct unrecorded infrastructure as of December 31, 2019.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



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

June 7, 2022

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020**

The prior audit report, as of December 31, 2019, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

OHIO AUDITOR OF STATE KEITH FABER



CITY OF HIGHLAND HEIGHTS

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 7/14/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov