

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

**AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2015**

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





# Dave Yost • Auditor of State

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

We have reviewed the Independent Auditor's Report of the City of Highland Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

August 16, 2016

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**CITY OF HIGHLAND HEIGHTS  
CUYAHOGA COUNTY , OHIO  
AUDIT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

*Certified Public Accountants  
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Garfield Hts., Ohio 44125*

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**INDEPENDENT AUDITOR'S REPORT**

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

The Honorable Dave Yost  
Auditor of State  
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, as of December 31, 2015, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 3 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and restated its net position at December 31, 2014 for governmental activities. Our opinion is not modified with respect to this matter.

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2016, on our consideration of the City of Highland Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Highland Heights, Ohio's internal control over financial reporting and compliance.



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

June 15, 2016



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# City of Highland Heights, Ohio

## Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2015

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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, 2015. 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 2015 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 \$39,588,681. Of this amount, \$605,781 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net position increased by \$57,642 from the prior year.
- Total liabilities and deferred inflows of resources increased by \$864,643 from the prior year.
- The unassigned fund balance for the General Fund was \$9,260,951 or 75.57 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, 2015

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

#### **Fund Financial Statements**

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

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

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

#### **Notes to the Financial Statements**

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

## City of Highland Heights, Ohio

### Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2015

#### THE CITY AS A WHOLE

##### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position increased from \$39,531,039 in 2014 to \$39,588,681 in 2015 or 0.15 percent from the prior year.

The table below provides a summary of the City's net position for 2015 and 2014.

**Table 1 - Net Position**

	Governmental Activities	
	2015	Restated 2014
<b><u>Assets</u></b>		
Current and Other Assets	\$ 21,892,046	\$ 22,883,181
Capital Assets	43,612,296	42,215,751
<b>Total Assets</b>	<b>65,504,342</b>	<b>65,098,932</b>
<b><u>Deferred Outflows of Resources</u></b>		
Deferral on Refunding	73,680	85,960
Pension	1,557,984	1,028,829
<b>Total Deferred Outflows of Resources</b>	<b>1,631,664</b>	<b>1,114,789</b>
<b><u>Liabilities</u></b>		
Long-term Liabilities		
Due within one year	1,824,138	5,513,266
Due in More than One Year:		
Net Pension Liability	11,464,715	10,870,236
Other Amounts	7,169,427	7,966,156
Other Liabilities	5,782,844	995,712
<b>Total Liabilities</b>	<b>26,241,124</b>	<b>25,345,370</b>
<b><u>Deferred Inflows of Resources</u></b>		
Property Tax	1,262,931	1,337,312
Pension	43,270	-
<b>Total Deferred Inflows of Resources</b>	<b>1,306,201</b>	<b>1,337,312</b>
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	31,507,874	32,066,895
Restricted	7,475,026	7,576,499
Unrestricted	605,781	(112,355)
<b>Total Net Position</b>	<b>\$ 39,588,681</b>	<b>\$ 39,531,039</b>

## City of Highland Heights, Ohio

### Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2015

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

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

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

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

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

## City of Highland Heights, Ohio

### Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2015

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

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

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014 from \$49,372,446 to \$39,531,039.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2015, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$39,588,681. At year-end, unrestricted net position had a surplus of \$605,781. A portion of the City's net position, \$7,475,026, 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 66.58 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, 2015, was \$31,507,874 for governmental activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

## City of Highland Heights, Ohio

### Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2015

The table below shows the changes in net position for fiscal year 2015 and 2014.

**Table 2 - Change in Net Position**

	Governmental Activities	
	2015	2014
<b><u>Revenues</u></b>		
Program Revenues:		
Charges for Services	\$ 1,625,706	\$ 1,655,842
Operating Grants and Contributions	475,272	434,305
Capital Grants and Contributions	144,513	-
General Revenues:		
Property Taxes	1,425,292	1,602,270
Income Taxes	11,723,339	11,001,773
Other Taxes	23,638	14,241
Grants and Entitlements	330,780	381,816
Other	77,169	12,844
<b>Total Revenues</b>	<b>15,825,709</b>	<b>15,103,091</b>
<b><u>Program Expenses</u></b>		
Security of Persons and Property	7,238,341	7,101,632
Public Health Services	30,206	40,978
Leisure Time Activities	807,108	801,824
Community Environment	119,874	125,941
Basic Utility Services	2,729,953	2,724,821
Transportation	2,077,930	1,928,707
General Government	2,472,272	2,965,405
Interest and Fiscal Charges	292,383	321,355
<b>Total Program Expenses</b>	<b>15,768,067</b>	<b>16,010,663</b>
Change in Net Position	57,642	(907,572)
Net Position, Beginning of Year; Restated	39,531,039	N/A
<b>Net Position, End of Year</b>	<b>\$ 39,588,681</b>	<b>\$ 39,531,039</b>

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,028,829 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,147,194. Consequently, in order to compare 2015 program expenses to 2014, the following adjustments are needed:

## City of Highland Heights, Ohio

### Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2015

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Total 2015 program expenses under GASB 68	15,768,067
Pension expense under GASB 68	(1,147,194)
2015 contractually required pension contribution	1,038,600
Adjusted 2015 program expenses	15,659,473
Total 2014 program expenses under GASB 27	16,010,663
Decrease in program expenses not related to pension	(351,190)

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Total revenues increased in 2015. This is primarily due to an increase in income tax revenues. 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 2015, income tax revenue was \$11,723,339. There was an increase of \$721,566 compared to prior year's collections mainly attributable to weak net profits from employer withholdings in 2014. The City's second largest revenue source is property taxes. The City's full tax rate for collection year 2015 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 2015, property taxes revenue was \$1,425,292. The next largest revenue source is charges for services. Charges for services decreased by \$30,136 or 1.82 percent.

Total expenses decreased in 2015. This is primarily due to increases in the areas of security of persons and property, transportation, and leisure time activities and decreases in general government. The City's decrease in expenses for 2015 was \$242,596 or 1.52 percent as compared to 2014. 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 45.91 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time sworn officers, 3 part-time, and 6 auxiliary officers, 4 full-time and 2 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, and 18 full-time, 9 part-time fire fighters/paramedics, and 1 part-time secretary. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The next largest programs are basic utility services, \$2,729,953 at 17.31 percent, general government, \$2,472,272 at 15.68 percent, transportation, \$2,077,930 at 13.18 percent, and leisure time activities, \$807,108 at 5.12 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration. The significant increase in transportation expenses when compared to 2014 is mainly attributed to more purchases of capital outlay in 2015 compared to 2014. The City has an annual road program which entails major and



## **City of Highland Heights, Ohio**

### **Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2015**

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minor resurfacing of the various streets in the City. In 2015, the City had entered into significant road repair projects compared to 2014. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City has borrowed on the open market by way of general obligation bonds and notes.

#### **THE CITY'S FUNDS**

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

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

As of the end of the current fiscal period, the City's governmental funds reported combined ending fund balances of \$11,334,582. Of this amount, \$7,275,107 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 \$9,260,951, while the total General Fund balance was \$10,319,665. 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 75.57 percent of General Fund expenditures (including other financing uses), while total General Fund balance represents 84.21 percent of the same amount.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The most significant budgeted fund is the General Fund. Over the course of the year, the City Council revised the City's General Fund budget several times to prevent budget overruns.

For the General Fund, actual revenue (including other financing sources) was \$12,929,184. This was higher than the final budgeted revenues of \$12,766,400 by \$162,784.

The original appropriation (including other financing uses) of \$13,782,370 was increased to \$13,919,212. Even with these adjustments, the actual charges to appropriations (expenditures) were \$1,155,719 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, 2015

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

At the end of 2015, the City had \$43,612,296 invested in a broad range of capital assets, including land, land improvements, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$1,396,545, or 3.31 percent over last year.

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

	Governmental Activities	
	2015	2014
Land and Land Improvements	\$ 1,679,660	\$ 1,679,660
Construction-in-progress	2,853,500	944,484
Land Improvements	1,013,395	1,092,122
Buildings	2,697,459	2,896,098
Machinery and Equipments	974,123	935,956
Furniture and Fixtures	3,915	7,904
Vehicles	1,436,405	536,439
Infrastructures	32,953,839	34,123,088
<b>Total Capital Assets, Net</b>	<b>\$ 43,612,296</b>	<b>\$ 42,215,751</b>

The City purchased \$177,010 of equipment in 2015 for various departments. The City received the aerial platform truck for the Fire Department which was recorded in CIP in 2014. The City has started the Miner Road Improvement Project in 2015 that was recorded as CIP.

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, 2015

#### Debt

The City had \$12,506,560 in outstanding debt at December 31, 2015, compared to \$12,154,924 at December 31, 2014, as shown in Table 4.

**Table 4 - Outstanding Debt at December 31**

	Governmental Activities	
	2015	2014
General Obligation Bonds	\$ 4,010,699	\$ 4,744,374
Special Assessment Bonds	1,812,980	2,131,585
Bond Anticipation Notes	4,712,938	3,657,510
OPWC Loans	1,969,943	1,621,455
<b>Total Outstanding Debt</b>	<b>\$ 12,506,560</b>	<b>\$ 12,154,924</b>

The City paid \$721,395 on principal for general obligation bonds, \$318,605 on principal for special assessment bonds, and \$203,142 on principal for OPWC loans. The majority of projects funded through long term debt deal directly with infrastructure improvements. All OPWC loans are at a zero percent interest rate.

The City's general obligation bond rating continues to carry an Aa2 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001, which was reaffirmed on October 5, 2011. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well below the state-imposed limit.

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

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

**City of Highland Heights, Ohio**  
**Statement of Net Position**  
**For the Year Ended December 31, 2015**

	Governmental Activities
<b>ASSETS</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 14,701,743
Materials and Supplies Inventory	159,409
Accounts Receivable	91,031
Accrued Interest Receivable	19,159
Intergovernmental Receivable	378,219
Due from Agency Fund	10,000
Prepaid Items	89,546
Municipal Income Taxes Receivable	2,833,612
Property Taxes Receivable	1,334,143
Special Assessments Receivable	2,275,184
Nondepreciable Capital Assets	4,533,160
Depreciable Capital Assets	39,079,136
<b>Total Assets</b>	<b>65,504,342</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferral on Refunding	73,680
Pension	1,557,984
<b>Total Deferred Outflows of Resources</b>	<b>1,631,664</b>
<b>LIABILITIES</b>	
Accounts Payable	333,473
Accrued Wages and Benefits	284,099
Intergovernmental Payable	224,178
Accrued Interest Payable	52,503
Retainage Payable	175,653
Notes Payable	4,712,938
Long-term Liabilities:	
Due within One Year	1,824,138
Due in More than One Year:	
Net Pension Liability (see Note 11)	11,464,715
Other Amounts	7,169,427
<b>Total Liabilities</b>	<b>26,241,124</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Tax	1,262,931
Pension	43,270
<b>Total Deferred Inflows of Resources</b>	<b>1,306,201</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	31,507,874
Restricted for:	
Debt Service	4,438,767
Capital Projects	1,440,279
Street Construction, Maintenance, and Repairs	900,035
Other Purposes	695,945
Unrestricted	605,781
<b>Total Net Position</b>	<b>\$ 39,588,681</b>

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, 2015

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		Total
<b>Primary Government:</b>					
<b>Governmental activities:</b>					
Security of Persons and Property	\$ 7,238,341	\$ 543,654	\$ 17,678	\$ -	\$ (6,677,009)
Public Health Services	30,206	-	-	-	(30,206)
Leisure Time Activities	807,108	247,935	-	-	(559,173)
Community Environment	119,874	162,473	-	9,546	52,145
Basic Utility Services	2,729,953	-	-	-	(2,729,953)
Transportation	2,077,930	228,428	457,594	134,967	(1,256,941)
General Government	2,472,272	443,216	-	-	(2,029,056)
Interest and Fiscal Charges	292,383	-	-	-	(292,383)
<b>Total Governmental activities</b>	<b>\$ 15,768,067</b>	<b>\$ 1,625,706</b>	<b>\$ 475,272</b>	<b>144,513</b>	<b>(13,522,576)</b>
<b>General Revenues:</b>					
Property Taxes levied for:					
					720,913
					180,062
					524,317
Municipal Income Taxes levied for:					
					10,844,089
					879,250
					23,638
					330,780
					57,537
					19,632
					<u>13,580,218</u>
					57,642
					39,531,039
					<u>\$ 39,588,681</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, 2015

	General Fund	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 8,812,887	\$ 451,321	\$ 2,185,081	\$ 3,252,454	\$ 14,701,743
Materials and Supplies Inventory	27,103	-	-	132,306	159,409
Accrued Interest Receivable	19,159	-	-	-	19,159
Accounts Receivable	91,031	-	-	-	91,031
Due from Other Agency	10,000	-	-	-	10,000
Intergovernmental Receivable	125,912	-	-	252,307	378,219
Prepaid Items	89,546	-	-	-	89,546
Municipal Income Taxes Receivable	2,621,091	-	-	212,521	2,833,612
Property Taxes Receivable	734,619	-	-	599,524	1,334,143
Special Assessments Receivable	4,467	2,034,935	-	235,782	2,275,184
<b>Total Assets</b>	<u>\$ 12,535,815</u>	<u>\$ 2,486,256</u>	<u>\$ 2,185,081</u>	<u>\$ 4,684,894</u>	<u>\$ 21,892,046</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 97,893	\$ -	\$ 212,009	\$ 23,571	\$ 333,473
Accrued Wages and Benefits	283,517	-	-	582	284,099
Intergovernmental Payable	151,629	-	-	72,549	224,178
Accrued Interest Payable	-	-	25,328	-	25,328
Retainage Payable	-	-	175,653	-	175,653
Notes Payable	-	-	4,700,000	12,938	4,712,938
<b>Total Liabilities</b>	<u>533,039</u>	<u>-</u>	<u>5,112,990</u>	<u>109,640</u>	<u>5,755,669</u>
<b>Deferred Inflows of Resources:</b>					
Property Tax	694,669	-	-	568,262	1,262,931
Unavailable Revenue - Delinquent Property Tax	38,210	-	-	31,262	69,472
Unavailable Revenue - Income Tax	820,773	-	-	66,549	887,322
Unavailable Revenue - Other	129,459	2,034,935	-	417,676	2,582,070
<b>Total Deferred Inflows of Resources</b>	<u>1,683,111</u>	<u>2,034,935</u>	<u>-</u>	<u>1,083,749</u>	<u>4,801,795</u>
<b>Fund Balances:</b>					
Nonspendable	116,649	-	-	132,306	248,955
Restricted	-	451,321	-	3,284,594	3,735,915
Committed	-	-	-	74,605	74,605
Assigned	942,065	-	-	-	942,065
Unassigned	9,260,951	-	(2,927,909)	-	6,333,042
<b>Total Fund Balances</b>	<u>10,319,665</u>	<u>451,321</u>	<u>(2,927,909)</u>	<u>3,491,505</u>	<u>11,334,582</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 12,535,815</u>	<u>\$ 2,486,256</u>	<u>\$ 2,185,081</u>	<u>\$ 4,684,894</u>	<u>\$ 21,892,046</u>

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, 2015

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<b>Total Governmental Funds Balance</b>	\$	11,334,582
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*Amounts reported for Governmental Activities in the Statement of Net Position are different because:*

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds		43,612,296
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:

Delinquent Property taxes	\$	69,472	
Municipal income taxes		887,322	
Special assessments		2,275,184	
Intergovernmental		272,880	
Charges for services		34,006	
Total		3,538,864	3,538,864

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(27,175)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	1,557,984		
Deferred Inflows - Pension	(43,270)		
Net Pension Liability	(11,464,715)		
Total		(9,950,001)	(9,950,001)

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

General obligation bonds	(3,937,019)		
Special assessment bonds	(1,812,980)		
Unamortized bond premiums	(155,382)		
Deferral of loss on refunding	73,680		
OPWC Loan	(1,969,943)		
Compensated absences	(1,118,241)		
Total		(8,919,885)	(8,919,885)

<b>Net Position of Governmental Activities</b>	\$	39,588,681
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The notes to the basic financial statements are an integral part of this statement

## City of Highland Heights, Ohio

### Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2015

	Special Assessment			Other Governmental Funds	Total Governmental Funds
	General Fund	Bond Retirement	Capital Improvement		
<b>REVENUES</b>					
Property Taxes	\$ 747,343	\$ -	\$ -	\$ 726,005	\$ 1,473,348
Municipal Income Taxes	10,653,789	-	-	863,821	11,517,610
Other Taxes	-	-	-	26,944	26,944
Intergovernmental	241,862	-	134,967	532,576	909,405
Interest	20,304	-	24,256	16	44,576
Fees, Licenses, and Permits	382,821	-	-	27,712	410,533
Fines and Forfeitures	-	-	-	650	650
Charges for Services	443,238	-	-	254,235	697,473
Contributions and Donations	15,956	-	-	-	15,956
Special Assessments	7,363	810,307	-	234,656	1,052,326
All Other Revenues	243,871	-	-	19,632	263,503
<b>Total Revenues</b>	<b>12,756,547</b>	<b>810,307</b>	<b>159,223</b>	<b>2,686,247</b>	<b>16,412,324</b>
<b>EXPENDITURES</b>					
Security of Persons and Property	6,047,771	-	98,960	814,981	6,961,712
Public Health Services	41,211	-	-	-	41,211
Leisure Time Activities	48,051	-	-	563,944	611,995
Community Environment	104,328	-	-	14,254	118,582
Basic Utility Services	1,947,302	-	-	-	1,947,302
Transportation	3,050	-	840,959	678,445	1,522,454
General Government	2,400,983	7,118	43,010	4,387	2,455,498
Capital Outlay	8,405	-	3,197,508	50,631	3,256,544
Debt Service:					
Principal Retirement	-	562,989	3,650,000	680,154	4,893,143
Interest and Fiscal Charges	-	176,785	25,328	100,743	302,856
Debt Issuance Costs	-	-	-	20,775	20,775
<b>Total Expenditures</b>	<b>10,601,101</b>	<b>746,892</b>	<b>7,855,765</b>	<b>2,928,314</b>	<b>22,132,072</b>
Excess of Revenues (Under) Expenditures	2,155,446	63,415	(7,696,542)	(242,067)	(5,719,748)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of Capital Assets	43,063	-	-	-	43,063
OPWC Loans Issued	-	-	551,630	-	551,630
Transfers In	-	-	1,073,686	680,000	1,753,686
Transfers Out	(1,653,686)	-	(50,000)	(50,000)	(1,753,686)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,610,623)</b>	<b>-</b>	<b>1,575,316</b>	<b>630,000</b>	<b>594,693</b>
Net Change in Fund Balances	544,823	63,415	(6,121,226)	387,933	(5,125,055)
Fund Balances - Beginning of Year	9,768,211	387,906	3,193,317	3,121,929	16,471,363
Increase (Decrease) in Inventory	6,631	-	-	(18,357)	(11,726)
<b>Fund Balances - End of Year</b>	<b>\$ 10,319,665</b>	<b>\$ 451,321</b>	<b>\$ (2,927,909)</b>	<b>\$ 3,491,505</b>	<b>\$ 11,334,582</b>

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, 2015

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<b>Net Change in Fund Balances-Total Governmental Funds</b>	(5,125,055)
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*Amounts reported for Governmental Activities in the Statement of Activities are different because:*

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

Capital Outlay	3,256,544	
Depreciation	(1,816,458)	
Total		1,440,086

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.

(43,541)

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

Delinquent property taxes	(48,056)	
Municipal income taxes	205,729	
Special assessments	(805,190)	
Intergovernmental	28,307	
Charges for services	32,594	
Total		(586,616)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of loans.

(551,630)

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

4,893,143

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

1,038,600

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

(1,147,194)

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	120,327	
Accrued interest on bonds	19,510	
Amortization of bond premiums	24,018	
Amortization of loss on refunding	(12,280)	
Change in inventory	(11,726)	
Total		139,849

<b>Change in Net Position of Governmental Activities</b>	<u><u>57,642</u></u>
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The notes to the basic financial statements are an integral part of this statement

## City of Highland Heights, Ohio

### Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues</u></b>				
Property Taxes	\$ 730,500	\$ 730,500	\$ 747,343	\$ 16,843
Municipal Income Taxes	10,800,000	10,800,000	10,799,263	(737)
Intergovernmental	187,300	187,300	248,240	60,940
Interest	4,000	4,000	11,947	7,947
Fees, Licenses, and Permits	412,050	412,050	361,118	(50,932)
Charges for Services	419,550	419,550	447,470	27,920
Contributions and Donations	8,500	8,500	15,956	7,456
Special Assessments	1,500	1,500	7,363	5,863
All Other Revenues	203,000	203,000	247,421	44,421
<b>Total Revenues</b>	<b>12,766,400</b>	<b>12,766,400</b>	<b>12,886,121</b>	<b>119,721</b>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons & Property	6,828,177	6,849,177	6,267,235	581,942
Public Health Services	45,239	45,239	42,837	2,402
Leisure Time Activities	46,485	57,641	46,755	10,886
Community Environment	149,100	149,100	111,368	37,732
Basic Utility Services	2,342,681	2,342,681	2,111,672	231,009
General Government	2,730,688	2,811,688	2,519,940	291,748
<b>Total Expenditures</b>	<b>12,142,370</b>	<b>12,255,526</b>	<b>11,099,807</b>	<b>1,155,719</b>
Excess of Revenues Over (Under) Expenditures	624,030	510,874	1,786,314	1,275,440
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Capital Assets	-	-	43,063	43,063
Advances Out	-	(10,000)	(10,000)	-
Transfers Out	(1,640,000)	(1,653,686)	(1,653,686)	-
<b>Total Other Financings Sources (Uses)</b>	<b>(1,640,000)</b>	<b>(1,663,686)</b>	<b>(1,620,623)</b>	<b>43,063</b>
Net Change in Fund Balance	(1,015,970)	(1,152,812)	165,691	1,318,503
Fund Balance - Beginning of Year	8,160,956	8,160,956	8,160,956	-
Prior Year Encumbrances Appropriated	204,326	204,326	204,326	-
Fund Balance - End of Year	<b>\$ 7,349,312</b>	<b>\$ 7,212,470</b>	<b>\$ 8,530,973</b>	<b>\$ 1,318,503</b>

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

# City of Highland Heights, Ohio

## Statement of Fiduciary Net Position

### Fiduciary Funds

December 31, 2015

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 224,881
Accounts Receivable	6,835
<b>Total Assets</b>	<u>\$ 231,716</u>
<b>Liabilities</b>	
Deposits Held and Due to Others	221,716
Due to General Fund	10,000
<b>Total Liabilities</b>	<u>\$ 231,716</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, 2015

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### NOTE 1: **REPORTING ENTITY**

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

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

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

The City is associated with three organizations which are defined as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 19 to the basic financial statements. The City is also associated with Northern Ohio Risk Management Association which has been defined as a risk sharing pool as presented in Note 15 and with Community Partnership on Aging Council of Governments which has been defined as a joint venture as presented in Note 18.

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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### 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, 2015

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

#### B. Fund Accounting (Continued)

##### *Governmental Funds*

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources compared to liabilities and deferred inflows of resources are reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City and/or the general laws of Ohio.

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

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

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

##### *Fiduciary Funds*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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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, 2015

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding and pension reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance year 2016 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



# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

#### E. **Equity in Pooled Cash and Investments**

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

Cash balances of all City funds are pooled and invested. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". Investments consist of STAR Ohio, a repurchase agreement, negotiable CD's, municipal bonds, and a money market mutual fund. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2015. The allocation of interest earnings from investments to the City's funds is governed by the City Charter. Interest revenue credited to the General Fund during 2015 amounted to \$20,304.

#### F. **Materials and Supplies Inventory**

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

#### F. Materials and Supplies Inventory (Continued)

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

Inventory consists of expendable supplies held for consumption.

#### G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

#### H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$7,500. The City's infrastructure consists of roads, water mains, sanitary sewers, storm sewers, culverts, bridges, and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

#### H. Capital Assets (Continued)

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

#### I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “Interfund receivables/payables”. These amounts are eliminated in the governmental activities column of the statement of net position.

#### J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

### L. **Fund Balance**

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

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

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

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

#### L. **Fund Balance** (Continued)

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

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

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

#### M. **Net Position**

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

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

#### N. **Interfund Activity**

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

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2015.

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 2015, 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, 2015

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

Q. **Budgetary Data** (Continued)

***Budgeted Level of Expenditure*** - Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges

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

***Lapsing of Appropriations*** - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

R. **Pensions**

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

### NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT**

For year 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	Governmental Activities
Net Position as of December 31, 2014	\$ 49,372,446
Adjustments:	
Net Pension Liability	(10,870,236)
Deferred Outflow - Payments Subsequent to Measurement Date	1,028,829
Restated Net Position December 31, 2014	<u>\$ 39,531,039</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available

### 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);



# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$ 544,823
Increase (Decrease) Due to:	
Revenue Accruals	129,576
Expenditure Accruals	(229,447)
Adjustment for Encumbrances	(279,261)
Budgetary Basis	<u>\$ 165,691</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.

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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### 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, 2015, 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, 2015, the carrying amount of the City's deposits was \$2,779,636. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2015, \$795,713 of the City's bank balance was covered by Federal Depository Insurance, and \$2,206,132 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

#### C. **Investments**

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2015, fair value was \$8,073 below the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

#### D. **Interest Rate Risk**

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

#### E. **Credit Risk**

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

#### F. **Custodial Credit Risk**

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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 a repurchase agreement represents 40.7 percent of the City's total investments. The remaining investments of the City, negotiable certificates of deposit, STAR Ohio, municipal bond, and money market mutual fund, represent 32.9 percent, 5.7 percent, 20.6 percent, and 0.1 percent, respectively, of the City's total investments.

Cash and investments at year-end were as follows:

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturity (in years)</u>	
			<u>&lt;1</u>	<u>1-2</u>
STAR Ohio	\$ 698,637	AAAm	\$ 698,637	\$ -
Negotiable CD's	3,993,403	N/A	1,499,660	2,493,743
Municipal Bond	2,498,525	N/A	749,620	1,748,905
Repurchase Agreement	4,945,000	N/A	4,945,000	-
Victory Federal Money Market Mutual Fund	10,723	AAA	10,723	-
Total Investments	<u>12,146,288</u>		<u>\$ 7,903,640</u>	<u>\$ 4,242,648</u>
Carrying Amount of Deposits	2,779,636			
Petty Cash	700			
Total Cash and Investments	<u>\$ 14,926,624</u>			

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

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2015, 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 2015 for real and public property taxes represents collections of 2014 taxes. Property tax payments received during 2015 for tangible personal property (other than public utility property) are for 2015 taxes.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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### NOTE 6: RECEIVABLES (Continued)

#### A. Property Taxes (Continued)

2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2015 real property taxes are collected in and intended to finance 2016.

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. 2015 public utility property taxes which became a lien at December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2015 property tax receipts were based are as follows:

Real Property	\$382,678,110
Public Utility Tangible Property	<u>3,551,110</u>
Total	<u>\$386,229,220</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, 2015, and for which there is an enforceable legal claim. In the General, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, and General Obligation Bond Retirement nonmajor debt service fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2015 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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NOTE 6: **RECEIVABLES** (Continued)

### B. **Municipal Income Taxes**

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

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

### C. **Special Assessments**

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

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

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

At December 31, 2015, special assessments expected to be collected in more than one year amount to \$2,275,184, including delinquent special assessments of \$164,692.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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NOTE 6: **RECEIVABLES** (Continued)

D. **Other Local Taxes**

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

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<b><u>Governmental Funds</u></b>	<b><u>Amount</u></b>
Gasoline Tax	\$ 162,419
Local Government	51,435
Homestead and Rollback Reimbursement	90,196
Utility Property Tax Loss Reimbursement	2,586
CAT Reimbursement	3,466
Auto Registration	38,723
Permissive Tax	5,693
Lyndhurst Municipal Court	18,930
Miscellaneous Grants	<u>4,771</u>
<b>Total Intergovernmental Receivables</b>	<b><u>\$ 378,219</u></b>



# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

### NOTE 7: FUND BALANCES

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

Fund Balances	General	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 89,546	\$ -	\$ -	\$ -	\$ 89,546
Inventories	27,103	-	-	132,306	159,409
<i>Total Nonspendable</i>	<u>116,649</u>	<u>-</u>	<u>-</u>	<u>132,306</u>	<u>248,955</u>
<i>Restricted for</i>					
Police Pension	-	-	-	87,189	87,189
Fire Pension	-	-	-	107,656	107,656
Parks and Recreation	-	-	-	366,707	366,707
Other Law Enforcement	-	-	-	49,641	49,641
Streets and Highways	-	-	-	629,222	629,222
Street Lighting	-	-	-	92,700	92,700
FEMA Fire Assistance	-	-	-	14,186	14,186
NOPEC POC Grant	-	-	-	2,001	2,001
Other Grants	-	-	-	3,289	3,289
Debt Service	-	451,321	-	1,905,105	2,356,426
Issue II	-	-	-	26,898	26,898
<i>Total Restricted</i>	<u>-</u>	<u>451,321</u>	<u>-</u>	<u>3,284,594</u>	<u>3,735,915</u>
<i>Committed to</i>					
Capital Improvements	-	-	-	-	-
Parks and Recreation Improvements	-	-	-	38,512	38,512
Street Trees	-	-	-	36,093	36,093
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,605</u>	<u>74,605</u>
<i>Assigned to</i>					
Purchases on Order	24,490	-	-	-	24,490
Fiscal Year 2016 Appropriations	917,575	-	-	-	917,575
<i>Total Assigned</i>	<u>942,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>942,065</u>
<i>Unassigned</i>	9,260,951	-	(2,927,909)	-	6,333,042
<b>Total Fund Balances</b>	<u>\$ 10,319,665</u>	<u>\$ 451,321</u>	<u>\$ (2,927,909)</u>	<u>\$ 3,491,505</u>	<u>\$ 11,334,582</u>

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

**NOTE 8: INTERFUND TRANSFERS AND BALANCES**

**A. Interfund Transfers**

Transfers made during the year end December 31, 2015 were as follow:

Transfers Out	Transfers In		
	Capital Improvement	Nonmajor Governmental Funds	Total
General	\$ 1,023,686	\$ 630,000	\$ 1,653,686
Capital Improvement	-	50,000	50,000
Nonmajor Governmental Funds	50,000	-	50,000
<b>Total</b>	<b>\$ 1,073,686</b>	<b>\$ 680,000</b>	<b>\$ 1,753,686</b>

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 General Fund transferred \$1,023,686 to the Capital Improvement Fund for the purposes of capital improvement purchases. The Park and Recreation Fund transferred \$50,000 to the Capital Improvement Fund to assist with the payments of debt in relation to pool investments, as authorized by City Ordinance. The related debt is paid out of the General Bond Retirement Fund. Therefore, the Capital Improvement Fund transferred \$50,000 to the General Bond Retirement Fund for payment of the pool improvement debt.

**B. Interfund Balances**

The Due from Agency Fund and Due to General Fund of \$10,000 in the Agency Funds and General Fund was due to the city expending money out for equipment repairs that will be paid by another Agency as a reimbursement.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2015 follows:

	Balance 1/1/2015	Additions	Disposals	Balance 12/31/2015
<b><u>Governmental Activities</u></b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Construction in Progress	944,484	2,853,500	(944,484)	2,853,500
<b>Total Capital Assets Not Being Depreciated</b>	<b>2,624,144</b>	<b>2,853,500</b>	<b>(944,484)</b>	<b>4,533,160</b>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,149,403	50,631	-	2,200,034
Buildings	7,587,376	15,430	-	7,602,806
Machinery and Equipments	2,278,431	177,010	(150,616)	2,304,825
Furniture and Fixtures	57,758	-	(10,767)	46,991
Vehicles	2,284,845	1,104,457	(338,394)	3,050,908
Infrastructures				
Roads	23,400,567	-	-	23,400,567
Water Mains	11,399,753	-	-	11,399,753
Sanitary Sewers	13,440,785	-	-	13,440,785
Storm Sewers	15,992,277	-	-	15,992,277
Culverts	222,342	-	-	222,342
Bridges	216,549	-	-	216,549
Traffic Signals	84,068	-	-	84,068
<b>Totals at Historical Cost</b>	<b>79,114,154</b>	<b>1,347,528</b>	<b>(499,777)</b>	<b>79,961,905</b>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,057,281)	(129,358)	-	(1,186,639)
Buildings	(4,691,278)	(214,069)	-	(4,905,347)
Machinery and Equipments	(1,342,475)	(126,213)	137,986	(1,330,702)
Furniture and Fixtures	(49,854)	(2,015)	8,793	(43,076)
Vehicles	(1,748,406)	(175,554)	309,457	(1,614,503)
Infrastructures				
Roads	(10,392,709)	(418,102)	-	(10,810,811)
Water Mains	(6,123,624)	(188,162)	-	(6,311,786)
Sanitary Sewers	(5,998,665)	(253,438)	-	(6,252,103)
Storm Sewers	(7,883,590)	(299,956)	-	(8,183,546)
Culverts	(115,329)	(3,867)	-	(119,196)
Bridges	(60,634)	(4,331)	-	(64,965)
Traffic Signals	(58,702)	(1,393)	-	(60,095)
<b>Total Accumulated Depreciation</b>	<b>(39,522,547)</b>	<b>(1,816,458)</b>	<b>456,236</b>	<b>(40,882,769)</b>
<i>Total Capital Assets, being Depreciated, Net</i>	<i>39,591,607</i>	<i>(468,930)</i>	<i>(43,541)</i>	<i>39,079,136</i>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 42,215,751</b>	<b>\$ 2,384,570</b>	<b>\$ (988,025)</b>	<b>\$ 43,612,296</b>

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 95,174
Security of Persons and Property	236,927
Basic Utilities	745,423
Community Environment	2,669
Leisure Time Activities	198,416
Transportation	537,849
<b>Total Depreciation Expense</b>	<b><u><u>\$ 1,816,458</u></u></b>

### NOTE 10: **COMPENSATED ABSENCES**

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

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

### NOTE 11: **PENSION PLAN**

#### A. **Net Pension Liability**

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

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

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

	State and Local
<b>2015 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2015 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions was \$303,449 for 2015. Of this amount, \$26,368 is reported as intergovernmental payable.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

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

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



## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

	Police	Firefighters
<b>2015 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
<b>2015 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	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 \$735,151 for 2015. Of this amount, \$66,269 is reported as pension obligation payable.

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportionate Share of the Net Pension Liability	\$2,463,001	\$4,547,845	\$ 4,453,869	\$11,464,715
Proportion of the Net Pension Liability	0.020421%	0.0877892%	0.0859751%	
Pension Expense	268,912	443,348	434,934	1,147,194

At December 31, 2015, 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
<b>Deferred Outflows of Resources</b>				
Net difference between projected and actual earnings on pension plan investments	\$131,418	\$196,008	\$191,958	\$519,384
City contributions subsequent to the measurement date	303,449	362,458	372,693	1,038,600
Total Deferred Outflows of Resources	\$434,867	\$558,466	\$564,651	\$1,557,984
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	\$43,270	\$0	\$0	\$43,270

\$1,038,600 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

NOTE 11: **PENSION PLAN** (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
2016	\$12,890	\$49,002	\$47,989	\$109,881
2017	12,890	49,002	47,989	\$109,881
2018	29,514	49,002	47,989	\$126,505
2019	32,854	49,002	47,991	\$129,847
Total	\$88,148	\$196,008	\$191,958	\$476,114

**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, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$4,531,216	\$2,463,001	\$721,066

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

### F. **Actuarial Assumptions – OP&F**

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

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

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

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

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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, 2014 are summarized below:

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

\* levered 2x

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

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$12,450,734	9,001,714	\$6,081,445



## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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#### NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS**

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

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

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting [www.opers.org/investments/cafr.shtml](http://www.opers.org/investments/cafr.shtml), by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

*Funding Policy* - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined Plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2015. As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.00 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA participants in the Member-Directed Plan for 2015 was 4.50 percent. The City's actual employer contributions for December 31, 2015, 2014 and 2013 which were used to fund post-employment benefits were \$52,859, \$51,994, and \$25,529, respectively; 92.87 percent has been contributed for 2015 and 100 percent for 2014 and 2013.

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

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

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

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

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2015 thru December 31, 2015. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$10,387 and \$8,581 for the year ended December 31, 2015, \$10,503 and \$8,332 for the year ended December 31, 2014, and \$69,161 and \$53,891 for the year ended December 31, 2013, respectively; 92.21 percent and 91.57 percent has been contributed for 2015 and 100 percent for 2014 and 2013.

# City of Highland Heights, Ohio

## Notes to the Basic Financial Statements For the Year Ended December 31, 2015

### NOTE 13: SHORT-TERM OBLIGATIONS

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

Bond Anticipation Notes

Various Purpose Income Tax						
Anticipation Notes, Series 2015, 4,700,000, 1.0%	\$	-	\$ 4,700,000	\$	-	\$ 4,700,000
Unamortized Note Premium		-	28,059	(15,121)		12,938
<i>Total Bond Anticipation Notes</i>	<u>\$</u>	<u>-</u>	<u>\$ 4,728,059</u>	<u>\$ (15,121)</u>		<u>\$ 4,712,938</u>

In 2015, the City issued \$4,700,000 in Various Purpose Improvement Notes. The Notes were used to retire the 2014 Various Purpose Improvement Notes that matured during 2015. These Notes will mature on June 16, 2016. As of December 31, 2015, the City expended \$4,289,840 of the proceeds on capital assets leaving a balance of \$410,160 to spend on capital asset projects.

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

### NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2015, are as follows:

	Restated Principal Outstanding 12/31/2014	Additions	Deletions	Principal Outstanding 12/31/2015	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
<u>Bond Anticipation Notes</u>					
Various Purpose Income Tax					
Anticipation Notes, Series 2014, 3,650,000, 0.75%	\$ 3,650,000	\$ -	\$(3,650,000)	\$ -	\$ -
Unamortized Note Premium	7,510	-	(7,510)	-	-
<i>Total Bond Anticipation Notes</i>	<u>3,657,510</u>	<u>-</u>	<u>(3,657,510)</u>	<u>-</u>	<u>-</u>
<u>General Obligation Bonds</u>					
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	63,414	-	(11,395)	52,019	12,270
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	1,205,000	-	(80,000)	1,125,000	80,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.00-3.125%	3,390,000	-	(630,000)	2,760,000	665,000
<i>Total General Obligation Bonds</i>	<u>4,658,414</u>	<u>-</u>	<u>(721,395)</u>	<u>3,937,019</u>	<u>757,270</u>

(Continued)

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

	Restated Principal Outstanding 12/31/2014	Additions	Deletions	Principal Outstanding 12/31/2015	Amounts Due in One Year
<i><u>Special Assessment Bonds (a)</u></i>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	301,585	-	(53,605)	247,980	57,730
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	1,830,000	-	(265,000)	1,565,000	280,000
<i>Total Special Assessment Bonds</i>	<u>2,131,585</u>	<u>-</u>	<u>(318,605)</u>	<u>1,812,980</u>	<u>337,730</u>
<b><u>Governmental Activities</u></b> (Continued)					
<i><u>Ohio Public Works Commission</u></i>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	\$ 492,191	\$ -	\$ (82,031)	\$ 410,160	\$ 82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	312,100	-	(48,015)	264,085	48,015
1998 \$145,238 Millridge Water Main Replacement, 0%	39,940	-	(7,262)	32,678	7,262
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	257,522	-	(34,337)	223,185	34,337
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	519,702	-	(31,497)	488,205	31,497
2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0%	-	551,630	-	551,630	-
<i>Total Ohio Public Works Commission</i>	<u>1,621,455</u>	<u>551,630</u>	<u>(203,142)</u>	<u>1,969,943</u>	<u>203,142</u>
<i><u>Other Long-term Liabilities</u></i>					
Unamortized Bond Premium	171,890	-	(16,508)	155,382	-
Net Pension Liability					
OPERS	2,407,370	55,631	-	2,463,001	-
OP&F - Police	4,275,609	272,236	-	4,547,845	-
OP&F - Fire	4,187,257	266,612	-	4,453,869	-
Total Net Pension Liability	<u>10,870,236</u>	<u>594,479</u>	<u>-</u>	<u>11,464,715</u>	<u>-</u>
Compensated Absences	1,238,568	499,797	(620,124)	1,118,241	525,996
<i>Total Other Long-term Liabilities</i>	<u>12,280,694</u>	<u>1,094,276</u>	<u>(636,632)</u>	<u>12,738,338</u>	<u>525,996</u>
<b>Total Governmental Long-Term Liabilities</b>	<u>\$ 24,349,658</u>	<u>\$ 1,645,906</u>	<u>\$ (5,537,284)</u>	<u>\$ 20,458,280</u>	<u>\$ 1,824,138</u>

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

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

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

##### Defeased Debt

On October 5, 2011, the City issued \$5,145,000 in bonds for the purpose of refunding all of the City's outstanding various purpose improvements bonds, series 1997 and series 2001. The refunding bonds were issued to refund at a lower overall interest cost all of the outstanding 2011 bonds maturing after December 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 1997 and 2001 bonds was \$6,506,803 versus \$5,851,963 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$654,840. The present value of the difference between the two debt streams using the arbitrage yield was \$596,290 which constitutes the economic gain on the transaction. As of December 31, 2015, the amount of defeased debt outstanding amounted to \$2,855,000.

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

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

In September 2014, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$686,800. These funds are being used for Miner/Highland Intersection and Road Rehabilitation project which was started in 2015. The debt is a zero percent interest loan over twenty years. As of December 31, 2015, the loan balance for the portion of the project completed was \$551,630. An amortization schedule has not been prepared by OPWC since project is still ongoing.

The OPWC loans will be paid by revenues transferred from the General Fund and from special assessment proceeds. Compensated absences will be paid from the General Fund, the Street Construction, Maintenance, and Repair Fund, and the Parks and Recreation Fund.

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

**Legal Debt Margin**

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2015, the City's overall debt margin was \$33,509,874 with an unvoted debt margin of \$14,198,413.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2015, from the general resources of the City are as follows:

Year	<b>General Obligation Bonds</b>		<b>Special Assessment Bonds</b>	
	Principal	Interest	Principal	Interest
2016	\$ 757,270	\$ 124,406	\$ 337,730	\$ 100,851
2017	753,147	107,226	356,853	82,387
2018	413,147	89,146	371,853	62,730
2019	408,455	76,940	396,544	42,092
2020	425,000	64,038	350,000	19,950
2021-2025	1,050,000	148,420	-	-
2026-2030	130,000	6,500	-	-
Totals	\$ 3,937,019	\$ 616,675	\$ 1,812,980	\$ 308,011

  

Year	<b>OPWC Loans</b>		<b>Total</b>	
	Principal	Interest	Principal	Interest
2016	\$ 203,142	\$ -	\$ 1,298,142	\$ 225,257
2017	203,142	-	1,313,142	189,613
2018	203,142	-	988,142	151,876
2019	203,142	-	1,008,141	119,032
2020	199,511	-	974,511	83,988
2021-2025	232,997	-	1,282,997	148,420
2026-2030	157,485	-	287,485	6,500
2031	15,750	-	15,750	-
Totals	\$ 1,418,313	\$ -	\$ 7,168,310	\$ 924,686

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

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

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

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

In 2015, the City of Highland Heights paid \$93,453 in premiums from the General Fund, which represents 4.79 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of South Euclid, 1349 South Green Road, South Euclid, Ohio, 44121.

#### NOTE 16: **RISK MANAGEMENT**

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

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

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

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

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



## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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

The medical and prescription benefits are provided through United Healthcare from January 1 through December 31, 2015. Dental and vision benefits are provided through Cigna. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits through United Healthcare is \$364.07 for single coverage; \$869.90 for employee and spouse coverage; \$791.38 for employee and children coverage; and \$1,275.78 for family coverage. The monthly premium for dental and vision benefits is \$31.05 for single coverage and \$97.56 for family coverage.

NOTE 17: **CONTINGENT LIABILITIES**

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

NOTE 18: **JOINT VENTURE**

**Community Partnership on Aging Council of Governments**

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2015, the City contributed \$89,335, which represents 12.40 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

## City of Highland Heights, Ohio

### Notes to the Basic Financial Statements For the Year Ended December 31, 2015

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#### NOTE 19: **JOINTLY GOVERNED ORGANIZATION**

##### **Eastern Suburban Regional Council of Governments**

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

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

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. The City did not contribute to ESCOG in 2015.

##### **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 2015. 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, 2015

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

#### **Mayfield Union Cemetery**

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

### NOTE 20: **OTHER COMMITMENTS**

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2015, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 279,261
Capital Improvement	1,655,245
Nonmajor Funds:	
Special Revenue Funds	<u>10,242</u>
Total	<u><u>\$ 1,944,748</u></u>

### NOTE 21: **Accountability**

At December 31, 2015 the capital improvement fund had a fund deficit of \$2,927,909. The deficit is the result of the recognition of liabilities in accordance with general accepted accounting principles. The general fund is liable of any deficits and provides operating transfers when cash is required, not when accruals occur.

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

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<b>Traditional Plan</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.020421%	0.020421%
City's Proportionate Share of the Net Pension Liability	\$2,463,001	\$2,407,370
City's Covered-Employee Payroll	\$2,511,908	\$2,749,315
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	98.05%	87.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

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

<b>Police</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.0877892%	0.0877892%
City's Proportionate Share of the Net Pension Liability	\$4,547,845	\$4,275,609
City's Covered-Employee Payroll	\$1,932,211	\$2,370,598
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	235.37%	180.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%
<b>Fire</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.0859751%	0.0859751%
City's Proportionate Share of the Net Pension Liability	\$4,453,869	\$4,187,257
City's Covered-Employee Payroll	\$1,533,106	\$1,767,766
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	290.51%	236.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

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

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

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

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Contractually Required Contributions</u>										
Police	\$362,458	\$367,120	\$372,895	\$355,123	\$354,841	\$346,840	\$336,563	\$323,600	\$317,093	\$306,624
Fire	\$372,693	\$360,280	\$357,619	\$358,019	\$353,068	\$315,439	\$311,313	\$308,812	\$299,481	\$284,848
Total Required Contributions	\$735,151	\$727,400	\$730,514	\$713,142	\$707,909	\$662,279	\$647,876	\$632,412	\$616,574	\$591,472
Contributions in Relation to the Contractually Required Contribution	(\$735,151)	(\$727,400)	(\$730,514)	(\$713,142)	(\$707,909)	(\$662,279)	(\$647,876)	(\$632,412)	(\$616,574)	(\$591,472)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>										
Police	\$1,907,674	\$1,932,211	\$2,370,598	\$2,785,278	\$2,783,067	\$2,720,314	\$2,639,710	\$2,538,039	\$2,487,004	\$2,609,566
Fire	\$1,585,928	\$1,533,106	\$1,767,766	\$2,075,472	\$2,046,771	\$1,828,632	\$1,804,713	\$1,790,214	\$1,736,122	\$1,752,911
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>										
Police	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	11.75%
Fire	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	16.25%

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

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

*Certified Public Accountants  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125*

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**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 Dave Yost  
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, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 15, 2016, wherein we noted that the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, and restated its net position at December 31, 2014 for governmental activities.

***Internal Control Over Financial Reporting***

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

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



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

### ***Compliance and Other Matters***

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

### ***Purpose of This Report***

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



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

June 15, 2016

**CITY OF HIGHLAND HEIGHTS  
CUYAHOGA COUNTY , OHIO  
STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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The prior audit report, as of December 31, 2014, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



# Dave Yost • Auditor of State

**CITY OF HIGHLAND HEIGHTS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 30, 2016**