



Dave Yost • Auditor of State

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

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CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Mayfield Heights
Cuyahoga County
6154 Mayfield Road
Mayfield Heights, Ohio 44124

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio (the 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

August 24, 2016

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City of Mayfield Heights, Ohio

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

The management's discussion and analysis of the City of Mayfield Heights' (the "City") financial performance provides an overall review of the City's financial activities for the 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 should also review the basic financial statements and the notes to those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Total assets and deferred outflows of resources of the City decreased from \$64,347,015 to \$63,477,584, a total decrease of \$869,431. This decrease can mainly be attributed to the City's capital assets as a result of current year depreciation exceeding current year capital additions; offset with an increase in deferred outflows of resources due to the implementation of GASB 68.

Total liabilities and deferred inflows of resources of the City increased from \$28,898,880 to \$30,374,075, a total increase of \$1,475,195. This can most significantly be attributed to an increase in Net Pension Liability.

Total net position decreased from \$35,448,135 to \$33,103,509, a total decrease of \$2,344,626. This is a decrease of 6.61 percent. See the above explanations on total assets and total liabilities and deferred inflows of resources as to explain why net position decreased.

Using This Annual Financial Report

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These statements are prepared and organized so the reader can understand the City as a financial whole, or as an entire operating entity. The statements provide a detailed look at the City's specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

City of Mayfield Heights, Ohio

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

Reporting the City of Mayfield Heights as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information, excluding Fiduciary Funds, on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in tax laws, and the condition of capital assets should also be considered. Both the Statement of Net Position and the Statement of Activities use the accrual basis of accounting similar to the accounting method used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities are divided into the following categories:

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position
- Program Revenue and Expenses
- General Revenues
- Net Position Beginning of Year and End of Year

Reporting the City of Mayfield Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 19. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and identify certain services and activities provided to our residents. However, these fund financial statements focus on the City's most significant funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City's major fund is the General Fund.

City of Mayfield Heights, Ohio

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

Governmental Funds

Governmental funds are used to account for all activities which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information assists in determining whether there are more or less financial resources available in the near future for important City services. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

Proprietary Funds

There are different types of proprietary funds: enterprise funds and internal service funds. The City does not maintain any enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its self-insurance of workers' compensation related costs. The internal service fund is presented on the proprietary fund financial statements and has been included with governmental activities in the government-wide financial statements.

Fiduciary Funds

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

City of Mayfield Heights, Ohio

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

The City of Mayfield Heights as a Whole

Government-wide Financial Analysis

As noted earlier, the Statement of Net Position looks at the City as a whole and can be used as an indicator of the City's financial position. The Statement of Net Position in Table 1 provides a summary of the City's net position for 2015 compared to 2014.

Table 1 - Net Position

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2015 | 2014 * |
| <u>Assets</u> | | |
| Current and Other Assets | \$ 26,317,539 | \$ 26,504,119 |
| Capital Assets | 34,360,908 | 36,005,421 |
| Total Assets | 60,678,447 | 62,509,540 |
| <u>Deferred Outflows of Resources</u> | | |
| Pension | 2,799,137 | 1,837,475 |
| <u>Liabilities</u> | | |
| Other Liabilities | 1,209,479 | 992,906 |
| Long-term Liabilities: | | |
| Due within One Year | 1,013,993 | 1,114,646 |
| Due in More than One Year: | | |
| Net Pension Liability | 20,319,507 | 19,274,969 |
| Other Amounts | 3,212,045 | 3,181,618 |
| Total Liabilities | 25,755,024 | 24,564,139 |
| <u>Deferred Inflows of Resources</u> | | |
| Property Taxes | 4,538,077 | 4,334,741 |
| Pension | 80,974 | - |
| Total Deferred Inflows of Resources | 4,619,051 | 4,334,741 |
| <u>Net Position</u> | | |
| Net Investment in Capital Assets | 33,070,146 | 34,621,579 |
| Restricted | 5,937,446 | 1,003,766 |
| Unrestricted | (5,904,083) | (177,210) |
| Total Net Position | \$ 33,103,509 | \$ 35,448,135 |

* Restated

City of Mayfield Heights, Ohio

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

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 Mayfield Heights, Ohio

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

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 \$52,885,629 to \$35,448,135.

Total assets and deferred outflows of resources for the City are \$63,477,584. The largest portion of the City's assets is in capital assets totaling \$34,360,908, which represents 54.13 percent of the total.

Total liabilities and deferred inflows of resources for the City are \$25,755,024 and \$4,619,051, respectively. The most significant long-term liabilities are Net Pension Liability for \$20,319,507. Property taxes, for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance year 2016 operations and pension, have been recorded as deferred inflows of resources.

Total net position for the City is \$33,103,509. The most significant component of the net position is represented by the net investment in capital assets of \$33,070,146.

City of Mayfield Heights, Ohio

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

Table 2 shows the changes in Net Position for the years ended December 31, 2015 and December 31, 2014, and corresponds to the Statement of Activities on page 18.

Table 2 - Changes in Net Position

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2015 | 2014 |
| <u>Revenues</u> | | |
| Program Revenues: | | |
| Charges for Services | \$ 2,047,364 | \$ 2,153,691 |
| Operating Grants and Contributions | 741,238 | 739,490 |
| General Revenues: | | |
| Property Taxes | 4,637,619 | 4,236,153 |
| Income Taxes | 14,594,663 | 13,497,105 |
| Other Taxes | 304,244 | 292,440 |
| Grants and Entitlements not Restricted to Specific Programs | 923,527 | 972,661 |
| Other | 327,855 | 351,120 |
| Total Revenues | 23,576,510 | 22,242,660 |
| <u>Program Expenses</u> | | |
| Security of Persons and Property | 12,744,301 | 12,273,478 |
| Public Health Services | 336,981 | 354,792 |
| Leisure Time Activities | 1,930,594 | 1,741,019 |
| Community Environment | 1,114,866 | 1,116,405 |
| Basic Utility Services | 1,144,518 | 844,899 |
| Transportation | 5,782,288 | 5,928,664 |
| General Government | 2,867,588 | 2,736,637 |
| Interest and Fiscal Charges | - | 6,333 |
| Total Program Expenses | 25,921,136 | 25,002,227 |
| (Decrease) in Net Position | (2,344,626) | (2,759,567) |
| Net Position, Beginning of Year (Restated) | 35,448,135 | N/A |
| Net Position, End of Year | \$ 33,103,509 | \$ 35,448,135 |

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 \$1,837,475 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 \$2,039,955.

City of Mayfield Heights, Ohio

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

Consequently, in order to compare 2015 program expenses to 2014, the following adjustments are needed:

| | |
|---|-----------------------|
| Total 2015 program expenses under GASB 68 | 25,921,136 |
| Pension expense under GASB 68 | (2,039,955) |
| 2015 contractually required contribution | <u>1,876,105</u> |
| Adjusted 2015 program expenses | 25,757,286 |
| Total 2014 program expenses under GASB 27 | <u>25,002,227</u> |
| Increase in program expenses not related to pension | <u><u>755,059</u></u> |

Total revenues increased in 2015 compared to 2014 by \$1,333,850, or an increase of 6.00 percent. The increase is mainly attributed to income and property taxes.

Total program expenses increased overall by \$918,909, a percentage of 3.68 percent. Security of Persons and Property expense had the most significant increase of \$470,823 or 3.84 percent, and was mainly due to increases in contractual wages increases, health insurance premiums, and several equipment purchases that were not capitalized.

Governmental Activities

Several revenue sources fund the City's governmental activities. The most significant revenue source is municipal income tax. The income tax rate is 1 percent and residents of the City who work in another community receive a 0.50 percent credit for the first 1 percent paid to another community. The rate of 1 percent and 0.50 percent credit have been in effect since 1982. Income tax as a revenue source was first enacted in 1967. The City has a significant commercial tax base, which provides financial stability. Major employers such as Rockwell Automation, Parker Hannifin, Meridia Hillcrest Hospital (Cleveland Clinic), and Progressive Casualty Insurance continue to contribute to the City's tax base. In 2015, the City's revenue from income tax increased from \$13,497,105 in 2014 to \$14,594,663.

The other major revenue source for the City is property tax. The City's charter millage is 10.00 and has remained the same since 1951. The tax duplicate for collection year 2015 was \$517,102,230 and has been certified at \$515,689,780 for the 2016 collection year. While this revenue source is not as significant as the income tax, the duplicate's decreases have been impacted by the revaluation process that was completed by Cuyahoga County in 2015.

City of Mayfield Heights, Ohio

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

The City's Funds

Information about the City's major funds begins on page 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$25,106,139 and expenditures of \$26,319,725 (including other financing sources and uses). The most significant fund is the General Fund with a year end fund balance of \$11,814,822, which included an assigned and unassigned fund balance of \$11,507,315 compared to expenditures of \$19,714,325, not including \$2,144,000 that was transferred from the General Fund to help finance various special revenue funds and a capital projects fund.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is prepared and presented to City Council for approval. A detailed line item budget for all departments is provided as part of the appropriation process. During the year, several amendments were made to the General Fund budget, with the major amendment being at the end of the year to adjust various line item amounts.

The City's original conservative revenue estimate of \$20,846,326 was higher than the final estimate of \$21,904,750, due mainly to a decrease in the estimate of income taxes. The original expenditure budget of \$22,337,300 was increased by several amended appropriations to a total of \$23,243,104, for an increase of \$905,804.

Capital Assets and Debt Administration

The City's investment in capital assets as of December 31, 2015, amounts to \$34,360,908 (net of accumulated depreciation). This investment in capital assets includes land, construction-in-progress, land improvements, buildings, machinery and equipment, furniture and fixtures, vehicles, roads, water mains, sanitary sewers, and storm sewers.

City of Mayfield Heights, Ohio

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

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

| | Governmental Activities | |
|-----------------------------|-------------------------|----------------------|
| | 2015 | 2014 |
| Land | \$ 3,024,620 | \$ 3,024,620 |
| Construction-in-progress | 329,815 | 0 |
| Land Improvements | 154,471 | 177,430 |
| Buildings | 5,280,415 | 5,511,751 |
| Machinery and Equipments | 644,041 | 516,122 |
| Furniture and Fixtures | 124,155 | 133,111 |
| Vehicles | 1,388,248 | 1,232,039 |
| Infrastructures: | | |
| Roads | 14,335,838 | 16,039,293 |
| Water Mains | 914,716 | 943,638 |
| Sanitary Sewers | 6,715,927 | 6,923,225 |
| Storm Sewers | 1,448,662 | 1,504,192 |
| Total Capital Assets | \$ 34,360,908 | \$ 36,005,421 |

Total capital assets for governmental activities of the City for 2015 were \$34,360,908, a decrease of \$1,644,513 from 2014. The reason for this decrease can be attributed to the annual depreciation expenses exceeding 2015 capital additions.

Refer to Note 10 of the basic financial statements for more detail on capital asset activity.

Long-Term Obligations

As of December 31, 2015, the City had \$1,290,762 in OPWC loans outstanding with \$86,408 due in a year (see Note 14 for further detail).

Table 4 - Outstanding Debt at December 31

| | Governmental Activities | |
|-------------------------------|-------------------------|---------------------|
| | 2015 | 2014 |
| OPWC Loans | 1,290,762 | 1,383,842 |
| Total Outstanding Debt | \$ 1,290,762 | \$ 1,383,842 |

As of December 31, 2015, the City had no outstanding general obligation bonds. The City has utilized loans from the Ohio Public Works Commission (OPWC) to fund several of its major capital improvement projects. The City continues to have no long-term general obligation debt. Therefore, the City has not recently been rated by Moody's Investor Services.

City of Mayfield Heights, Ohio

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

Current Financial Related Activities

The City continues its strong financial position, which can be attributed to its conservative approach in fiscal management. The City has adopted a policy of limited short-term debt issuances. Most capital improvements and equipment replacements are financed from current revenues. Other than OPWC loans outstanding, the City has no general obligation debt, thus positioning the City to be able to issue debt should circumstances require it to meet future capital needs.

In conclusion, the implementation of GASB Statement No. 68 requires the reader to perform additional calculations to determine the City's Total Net Position at December 31, 2015 without the implementation of GASB Statement No. 68. This is an important exercise, as the State Pension Systems (OPERS & OP&F) collect, hold and distributes pensions to our employees, not the City of Mayfield Heights. These calculations are as follows:

| | |
|---|----------------------|
| Total Net Position at December 31, 2015 (with GASB 68) | \$ 33,103,509 |
| GASB 68 Calculations: | |
| Add: Deferred Inflows related to Pension | 80,974 |
| Net Pension Liability | 20,319,507 |
| Less: Deferred Outflows related to Pension | (2,799,137) |
| Total Net Position at December 31, 2015 (without GASB 68) | <u>\$ 50,704,853</u> |

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, creditors, and investors with a general overview of the City's finances and demonstrate the City's accountability for all money it receives, spends, and invests. If you have questions concerning this report or need additional financial information, contact the Director of Finance, Robert G. Tribby, at Mayfield Heights City Hall, 6154 Mayfield Road, Mayfield Heights, Ohio 44124, by telephone at 440-442-2626, ext. 201, or by e-mail at roberttribby@mayfieldheights.org

Basic Financial Statements

City of Mayfield Heights, Ohio

Statement of Net Position December 31, 2015

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 8,689,069 |
| Investments | 7,855,943 |
| Materials and Supplies Inventory | 76,439 |
| Accounts Receivable | 455,257 |
| Accrued Interest Receivable | 10,008 |
| Intergovernmental Receivable | 782,424 |
| Prepaid Items | 96,183 |
| Income Taxes Receivable | 3,644,684 |
| Property Taxes Receivable | 4,664,915 |
| Special Assessments Receivable | 17,587 |
| Other Taxes Receivable | 25,030 |
| Nondepreciable Capital Assets | 3,354,435 |
| Depreciable Capital Assets | 31,006,473 |
| Total Assets | <u>60,678,447</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension | 2,799,137 |
| Total Deferred Outflows of Resources | <u>2,799,137</u> |
| LIABILITIES | |
| Accounts Payable | 260,231 |
| Contracts Payable | 164,593 |
| Accrued Wages and Benefits | 340,007 |
| Intergovernmental Payable | 413,999 |
| Retainage Payable | 30,649 |
| Long-term Liabilities: | |
| Due within one year | 1,013,993 |
| Due in more than one year: | |
| Net Pension Liability (See Note 12) | 20,319,507 |
| Other Amounts due in more than one year | 3,212,045 |
| Total Liabilities | <u>25,755,024</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Property Taxes | 4,538,077 |
| Pension | 80,974 |
| Total Deferred Inflows of Resources | <u>4,619,051</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 33,070,146 |
| Restricted for: | |
| Debt Service | 63,057 |
| Capital Projects | 4,802,252 |
| Streets | 651,621 |
| Other Purposes | 420,516 |
| Unrestricted | (5,904,083) |
| Total Net Position | <u>\$ 33,103,509</u> |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Statement of Activities For the Year Ended December 31, 2015

| <u>Functions</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Position</u> |
|---|----------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Security of Persons and Property | \$ 12,744,301 | \$ 868,903 | \$ 39,079 | \$ (11,836,319) |
| Public Health Services | 336,981 | - | - | (336,981) |
| Leisure Time Activities | 1,930,594 | 443,088 | - | (1,487,506) |
| Community Environment | 1,114,866 | 418,580 | 1,396 | (694,890) |
| Basic Utility Services | 1,144,518 | 51,502 | - | (1,093,016) |
| Transportation | 5,782,292 | 6,888 | 700,763 | (5,074,641) |
| General Government | 2,867,584 | 258,403 | - | (2,609,181) |
| Total Governmental Activities | <u>\$ 25,921,136</u> | <u>\$ 2,047,364</u> | <u>\$ 741,238</u> | <u>(23,132,534)</u> |
| General Revenues: | | | | |
| Property Taxes levied for: | | | | |
| General Purposes | | | | 4,359,389 |
| Other Purposes | | | | 278,230 |
| Income Taxes levied for: | | | | |
| General Purposes | | | | 14,594,663 |
| Other Taxes | | | | 304,244 |
| Grants & Entitlements not restricted to specific programs | | | | 923,527 |
| Investment Income | | | | 122,225 |
| Gain on Sale of Capital Assets | | | | 19,939 |
| All Other Revenues | | | | <u>185,691</u> |
| Total General Revenues | | | | <u>20,787,908</u> |
| Change in Net Position | | | | <u>(2,344,626)</u> |
| Net Position - Beginning of Year, Restated | | | | <u>35,448,135</u> |
| Net Position - End of Year | | | | <u>\$ 33,103,509</u> |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2015

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 3,518,323 | \$ 4,968,316 | \$ 8,486,639 |
| Investments | 6,924,745 | 930,766 | 7,855,511 |
| Materials and Supplies Inventory | 29,126 | 47,313 | 76,439 |
| Accrued Interest Receivable | 8,835 | 1,173 | 10,008 |
| Accounts Receivable | 436,402 | 18,855 | 455,257 |
| Intergovernmental Receivable | 425,336 | 357,088 | 782,424 |
| Prepaid Items | 96,183 | - | 96,183 |
| Income Taxes Receivable | 3,644,684 | - | 3,644,684 |
| Property Taxes Receivable | 4,385,021 | 279,894 | 4,664,915 |
| Special Assessments Receivable | - | 17,587 | 17,587 |
| Other Taxes Receivable | 15,598 | 9,432 | 25,030 |
| Total Assets | \$ 19,484,253 | \$ 6,630,424 | \$ 26,114,677 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 235,161 | \$ 25,070 | \$ 260,231 |
| Accrued Wages and Benefits | 323,137 | 16,870 | 340,007 |
| Contracts Payable | - | 164,593 | 164,593 |
| Intergovernmental Payable | 324,075 | 89,924 | 413,999 |
| Retainage Payable | - | 30,649 | 30,649 |
| Total Liabilities | 882,373 | 327,106 | 1,209,479 |
| Deferred Inflows of Resources: | | | |
| Property Taxes | 4,265,793 | 272,284 | 4,538,077 |
| Unavailable Revenue - Delinquent Property Taxes | 119,228 | 7,610 | 126,838 |
| Unavailable Revenue - Income Taxes | 1,781,888 | - | 1,781,888 |
| Unavailable Revenue - Other | 620,149 | 266,224 | 886,373 |
| Total Deferred Inflows of Resources | 6,787,058 | 546,118 | 7,333,176 |
| Fund Balances: | | | |
| Nonspendable | 125,309 | 47,313 | 172,622 |
| Restricted | - | 1,355,059 | 1,355,059 |
| Committed | 182,198 | 4,426,408 | 4,608,606 |
| Assigned | 1,648,668 | - | 1,648,668 |
| Unassigned (Deficits) | 9,858,647 | (71,580) | 9,787,067 |
| Total Fund Balances | 11,814,822 | 5,757,200 | 17,572,022 |
| Total Liabilities, Deferred Inflows of Resources & Fund Balances | \$ 19,484,253 | \$ 6,630,424 | \$ 26,114,677 |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities December 31, 2015

| | |
|---|---------------|
| Total Governmental Fund Balances | \$ 17,572,022 |
|---|---------------|

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. 34,360,908

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

| | | |
|---------------------------|------------------|-----------|
| Delinquent property taxes | 126,838 | |
| Income taxes | 1,781,888 | |
| Special assessments | 17,587 | |
| Intergovernmental | 601,939 | |
| Charges for services | 266,847 | |
| Total | <u>2,795,099</u> | 2,795,099 |

Internal Service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the Internal Service funds are included in Governmental Activities in the Statement of Net Position. 202,862

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 | 2,799,137 | |
| Deferred Inflows - Pension | (80,974) | |
| Net Pension Liability | <u>(20,319,507)</u> | |
| Total | | (17,601,344) |

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

| | | |
|----------------------|--------------------|-------------|
| OPWC loans | (1,290,762) | |
| Compensated absences | <u>(2,935,276)</u> | |
| Total | | (4,226,038) |

| | |
|--|-----------------------------|
| Net Position of Governmental Activities | <u><u>\$ 33,103,509</u></u> |
|--|-----------------------------|

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

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

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|--------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 4,402,511 | \$ 280,982 | \$ 4,683,493 |
| Income Taxes | 14,039,871 | - | 14,039,871 |
| Other Taxes | 182,931 | 234 | 183,165 |
| Intergovernmental | 890,364 | 709,595 | 1,599,959 |
| Investment Income | 106,585 | 15,360 | 121,945 |
| Licenses and Permits | - | 121,079 | 121,079 |
| Fines, Licenses and Permits | 634,436 | - | 634,436 |
| Charges for Services | 1,015,377 | 300,010 | 1,315,387 |
| Contributions and Donations | 8,106 | - | 8,106 |
| Special Assessments | 1,396 | 2,222 | 3,618 |
| All Other Revenues | 98,384 | 132,757 | 231,141 |
| Total Revenues | 21,379,961 | 1,562,239 | 22,942,200 |
| EXPENDITURES | | | |
| Current: | | | |
| Security of Persons and Property | 11,877,619 | 874,683 | 12,752,302 |
| Public Health Services | 337,025 | - | 337,025 |
| Leisure Time Activities | 1,391,190 | 489,380 | 1,880,570 |
| Community Environment | 1,111,252 | 17,425 | 1,128,677 |
| Basic Utility Services | 769,388 | 93,218 | 862,606 |
| Transportation | 1,482,331 | 2,875,614 | 4,357,945 |
| General Government | 2,745,520 | 18,000 | 2,763,520 |
| Debt Service: | | | |
| Principal Retirement | - | 93,080 | 93,080 |
| Total Expenditures | 19,714,325 | 4,461,400 | 24,175,725 |
| Excess of Revenues Over (Under) Expenditures | 1,665,636 | (2,899,161) | (1,233,525) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | |
| Sale of Capital Assets | 589 | 19,350 | 19,939 |
| Transfers In | - | 2,144,000 | 2,144,000 |
| Transfers Out | (2,144,000) | - | (2,144,000) |
| Total Other Financing Sources (Uses) | (2,143,411) | 2,163,350 | 19,939 |
| Net Change in Fund Balances | (477,775) | (735,811) | (1,213,586) |
| Fund Balances - Beginning of Year | 12,303,685 | 6,488,383 | 18,792,068 |
| Increase (Decrease) in Inventory | (11,088) | 4,628 | (6,460) |
| Fund Balances - End of Year | \$ 11,814,822 | \$ 5,757,200 | \$ 17,572,022 |

See accompanying notes to the basic financial statements

City of Mayfield 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

Net Change in Fund Balances - Total Governmental Funds \$ (1,213,586)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

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

| | | |
|----------------|-------------|-------------|
| Capital outlay | 1,044,932 | |
| Depreciation | (2,664,123) | |
| Total | | (1,619,191) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (25,322)

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

| | | |
|---------------------------|----------|---------|
| Delinquent property taxes | (45,873) | |
| Income taxes | 554,792 | |
| Special assessments | 46 | |
| Intergovernmental | 63,410 | |
| Charges for services | 41,996 | |
| Total | | 614,371 |

Repayment of loan principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 93,080

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,876,105

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,039,955)

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 | (23,668) | |
| Change in inventory | (6,460) | |
| Total | | (30,128) |

Change in Net Position of Governmental Activities \$ (2,344,626)

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

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

| | Budgeted Amounts | | Actual | Variance with |
|---|---------------------|---------------------|----------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Property Taxes | \$ 4,452,944 | \$ 4,400,500 | \$ 4,402,511 | \$ 2,011 |
| Income Taxes | 13,729,811 | 14,656,000 | 14,660,368 | 4,368 |
| Other Taxes | 163,941 | 175,000 | 180,671 | 5,671 |
| Charges for Services | 919,755 | 981,800 | 999,653 | 17,853 |
| Fines, Licenses and Permits | 582,833 | 622,150 | 634,436 | 12,286 |
| Intergovernmental | 835,443 | 891,800 | 895,005 | 3,205 |
| Investment Income | 81,502 | 87,000 | 83,714 | (3,286) |
| Contributions and Donations | 7,494 | 8,000 | 8,106 | 106 |
| All Other Revenues | 72,603 | 77,500 | 74,870 | (2,630) |
| Total Revenues | 20,846,326 | 21,899,750 | 21,939,334 | 39,584 |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 11,937,730 | 12,375,011 | 11,913,955 | 461,056 |
| Public Health Services | 358,485 | 363,045 | 337,799 | 25,246 |
| Leisure Time Activities | 1,442,763 | 1,546,598 | 1,398,713 | 147,885 |
| Community Environment | 851,345 | 992,840 | 837,524 | 155,316 |
| Basic Utility Services | 775,000 | 775,000 | 767,058 | 7,942 |
| Transportation | 1,395,222 | 1,499,050 | 1,427,614 | 71,436 |
| General Government | 2,811,755 | 2,926,560 | 2,763,529 | 163,031 |
| Total Expenditures | 19,572,300 | 20,478,104 | 19,446,192 | 1,031,912 |
| Excess of Revenues Over (Under) Expenditures | 1,274,026 | 1,421,646 | 2,493,142 | 1,071,496 |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | - | 5,000 | 589 | (4,411) |
| Transfers Out | (2,765,000) | (2,765,000) | (2,624,000) | 141,000 |
| Total Other Financings Sources (Uses) | (2,765,000) | (2,760,000) | (2,623,411) | 136,589 |
| Net Change in Fund Balance | (1,490,974) | (1,338,354) | (130,269) | 1,208,085 |
| Fund Balance - Beginning of Year | 10,099,531 | 10,099,531 | 10,099,531 | - |
| Prior Year Encumbrances Appropriated | 153,523 | 153,523 | 153,523 | - |
| Fund Balance - End of Year | \$ 8,762,080 | \$ 8,914,700 | \$ 10,122,785 | \$ 1,208,085 |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Statement of Fund Net Position Proprietary Fund December 31, 2015

| | Governmental Activities - Internal Service Fund |
|--|--|
| ASSETS | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 202,862 |
| Total Assets | <u>202,862</u> |
| | |
| NET POSITION | |
| Unrestricted | 202,862 |
| Total Net Position | <u>\$ 202,862</u> |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Fund For the Year Ended December 31, 2015

| | Governmental Activities - Internal Service Fund |
|-----------------------------------|--|
| Net Position - Beginning of Year | <u>202,862</u> |
| Net Position - End of Year | <u><u>\$ 202,862</u></u> |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Statement of Cash Flows Proprietary Fund For the Year Ended December 31, 2015

| | Governmental Activities - Internal Service Fund |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Payments for Claims | \$ (814) |
| Net Cash Provided by Operating Activities | <u>(814)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (814) |
| | |
| Cash and Cash Equivalents - Beginning of Year | <u>203,676</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$ 202,862</u></u> |
| | |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating Income | \$ - |
| | |
| Adjustments: | |
| Increase (Decrease) in Liabilities: | |
| Claims Payable | (814) |
| Net Cash Provided by Operating Activities | <u><u>\$ (814)</u></u> |

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2015

| | <u>Agency Funds</u> |
|--|--------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 428,848 |
| Cash and Cash Equivalents: in Segregated Accounts | <u>18,077</u> |
| Total Assets | <u><u>\$ 446,925</u></u> |
| | |
| LIABILITIES | |
| Deposits Held and Due to Others | <u>\$ 446,925</u> |
| Total Liabilities | <u><u>\$ 446,925</u></u> |

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements

City of Mayfield Heights, Ohio

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

NOTE 1: **REPORTING ENTITY**

The City of Mayfield Heights, Ohio (the “City”) is a home-rule municipal corporation established under the laws of the State of Ohio. The City operates under its own charter. The current charter, which provides for a council-mayor form of government, was adopted by the voters on July 2, 1951.

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 City has no component units.

The City is associated with certain organizations which are identified as jointly governed organizations and a risk sharing pool. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Mayfield Union Cemetery, and the Community Partnership on Aging Council of Governments as presented in Note 18 to the basic financial statements. The City is associated with an organization defined as a risk sharing pool (Notes 15 and 16).

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. The more significant of the City’s accounting policies are described on the following pages.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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 three categories of funds: governmental, proprietary and fiduciary.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds Governmental funds are those through which 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 compared to liabilities and deferred inflows of resources is reported as fund balance. The following is a description of the City's only major governmental fund:

General Fund The General Fund is the operating fund of the City and 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.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have any enterprise funds.

Internal Service Fund Internal Service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports a self-insurance program for the City's workers' compensation retrospective rating plan.

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 and monies held for contractors, developers, community activities, police bond account, and a mobile air truck maintenance program.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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, deferred outflows of resources, 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 and 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. Governmental 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.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources along with all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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 along with the statement presented for proprietary and fiduciary funds are prepared using 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 outflows/inflows of resources, and the presentation of expenses versus expenditures.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 represent 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 are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension and 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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, intergovernmental grants and entitlements, 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 12)

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

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

E. **Cash, Cash Equivalents, and Investments**

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

The City complies with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As a governmental entity other than an external investment pool in accordance with GASB Statement No. 31, the City's investments are stated at market value, except for interest-earnings investment contracts (Note 6).

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2015:

The portfolio of the City was limited to United States Agency debt securities. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent its cash and investment balance exceeds the cumulative value of those investments subject to GASB Statement No. 31.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash, Cash Equivalents, and Investments (Continued)

The City's policy is to hold investments until maturity or until market values equal or exceed cost.

For presentation on the statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Materials and Supplies Inventory

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

On fund financial statements, inventories of the 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 expenditures in the governmental fund types when purchased.

Inventory consists of expendable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015 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.

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 \$2,500. Interest incurred during the construction of capital assets is not capitalized.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method utilizing the half-year convention over the following useful lives:

| <u>Description</u> | Governmental Activities <u>Estimated Lives</u> |
|--------------------------|--|
| Building and Improvement | 20 - 60 years |
| Machinery and Equipment | 5 - 20 years |
| Furniture and Fixtures | 15 - 20 years |
| Vehicles | 5 - 20 years |
| Infrastructure | 15 - 50 years |

I. 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 (those employees who will be eligible to receive termination benefits in the next twenty years). 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.

J. 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 and long-term loans are recognized as a liability on the governmental fund financial statements when due.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

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. 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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

L. **Fund Balance** (Continued)

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. The net investment 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. The restricted component of net position is reported 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 other governments. The City has no component of net position which is restricted by enabling legislation. Net position that is restricted for other purposes are mostly comprised of the the Summer Day Camp Fund. 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 Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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. The City had no extraordinary or special items 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**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

An annual appropriation budget is prepared for all funds other than the agency funds of the City. Budgetary comparisons are presented in this report on the budgetary basis.

The legal level of budgetary control is at the personal services and other object levels within each department for the General Fund, the Street Construction, Maintenance and Repair Fund, the State Highway Improvement Fund, the Summer Day Camp Fund, and the Juvenile Diversion Program Fund, and at the other object level for the remaining funds. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council by November 15 of each year for the period January 1 to December 31 of the following year.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

Q. **Budgetary Data** (Continued)

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

Appropriations - A temporary appropriation measure to control disbursements may be passed prior to January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by April 1 and may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations at the personal services and other object levels within each department for the General Fund, the Street Construction, Maintenance, and Repair Fund, the State Highway Improvement Fund, the Summer Day Camp Fund, and the Juvenile Diversion Program Fund, and at the other object level for the remaining funds (legal level of control) do not exceed current estimated resources, as certified. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the appropriation amounts passed by Council during the year.

Encumbrances - As part of formal budgetary control, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a part of restricted, committed, or assigned fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations - At the close of each 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 year and is not reappropriated.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

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 | \$ 52,885,629 |
| Adjustments: | |
| Net Pension Liability | (19,274,969) |
| Deferred Outflow - Payments Subsequent to Measurement Date | 1,837,475 |
| Restated Net Position December 31, 2014 | <u>\$ 35,448,135</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: ACCOUNTABILITY

Fund Balance at December 31, 2015 included the following individual fund deficits:

| <u>Nonmajor Special Revenue Funds:</u> | |
|--|------------------|
| Police Pension Fund | \$ 35,804 |
| Fire Pension Fund | 35,776 |
| Total | <u>\$ 71,580</u> |

The deficits in the Police and Fire Pension Special Revenue funds resulted from accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when is needed and rather than when accruals occur.

NOTE 5: 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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual presented for the General Fund is 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 part of restricted, committed, or assigned fund balance (GAAP basis).
- d. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
- e. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

| <u>Net Change in Fund Balance</u> | |
|---|---------------------|
| GAAP Basis | \$ (477,775) |
| Increase (Decrease) Due to: | |
| Revenue Accruals | 560,770 |
| Expenditure Accruals | (54,269) |
| Funds with Separate Legally Adopted Budgets | (7,427) |
| Net Impact of Encumbrances | (151,568) |
| Budgetary Basis | <u>\$ (130,269)</u> |

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 6: **CASH, CASH EQUIVALENTS, 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 \$1,750 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

B. **Deposits**

At December 31, 2015, the carrying amount of the City's deposits was \$9,134,244 (which includes \$18,077 of cash and cash equivalents in segregated accounts). Based on criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, as of December 31, 2015, \$1,270,499 of the City's bank balance was covered by Federal Depository Insurance and \$8,488,448 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's Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code 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 Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 6: **CASH, CASH EQUIVALENTS, 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 \$29,333 below the City's net cost for investments. At December 31, 2014, fair value was \$71,413 below net cost. 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. The credit ratings were provided from Moody's and Standard and Poor's. The City has no investment policy that would further limit its investment choices.

F. **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by a third party custodian designated by the Finance Director. 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 finance director or qualified trustee.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

G. **Concentration of Credit Risk**

Safety of principal is the foremost objective of the City's investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed income generated from the remainder of the portfolio.

Cash and investments at year-end were as follows:

| <u>Investment Type:</u> | Fair Value | Credit Rating (*) | Investment Maturities (in Years) | | |
|-------------------------|---------------|----------------------|----------------------------------|--------------|--------------|
| | | | <1 | 1-3 | 3-5 |
| U.S. Agencies | \$ 7,855,943 | Aaa/AA+ | \$ 747,783 | \$ 5,560,084 | \$ 1,548,076 |

* Credit Ratings were obtained from Moody's and Standard & Poor's, respectively, for all investments.

NOTE 7: **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 and public utility 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.

2015 real property taxes are levied after October 1, 2015 on the assessed value as of January 1, 2015, 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 operations.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2014 public utility property taxes which became a lien at December 31, 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 \$10.00 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 | \$ 508,703,580 |
| Public Utility Tangible Property | <u>8,398,650</u> |
| Total | <u>\$ 517,102,230</u> |

Public utility 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 Fiscal Officer collects property taxes on behalf of all taxing districts within the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and 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, Fire Pension, and General Bond Retirement Funds, the entire receivable has been offset by deferred inflows 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 remains in deferred inflows of resources.

B. **Municipal Income Taxes**

An income tax of 1.0 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 50 percent of the first 1.0 percent paid. The allocation of income tax revenue to the City's General Fund is determined by City Ordinance.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 7: **RECEIVABLES** (Continued)

B. **Municipal Income Taxes** (Continued)

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. As of December 31, 2015, the City does not have any assessments for debt obligations.

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.

All special assessments are billed and collected by the County Fiscal Officer. The County 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.

Special assessments expected to be collected in more than one year amount to \$17,587. At December 31, 2015, the amount of delinquent special assessments was \$1,201.

D. **Other Local Taxes**

With certain exceptions, a tax of 5 percent is levied by the City on individuals, companies and organizations which collect an admission charge. Additionally, the City levies a transient guest tax on individuals staying at motels located in the City at a rate of 3 percent. These other local taxes are recorded in the General Fund.

City of Mayfield Heights, Ohio

**Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015**

NOTE 7: **RECEIVABLES** (Continued)

E. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

| <u>Governmental Activities</u> | <u>Amount</u> |
|---|--------------------------|
| Local Government | \$ 208,414 |
| Gasoline/Motor Vehicle License/Permissive Taxes | 343,242 |
| Homestead and Rollback Reimbursement | 230,768 |
| Total Governmental Activities | <u><u>\$ 782,424</u></u> |

NOTE 8: **INTERFUND TRANSACTIONS**

A. Interfund Transfers

As of December 31, 2015, interfund transfers were as follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|----------------------------|-----------------------------|
| General | \$ - | \$ 2,144,000 |
| Nonmajor Governmental Funds | 2,144,000 | - |
| Total | <u><u>\$ 2,144,000</u></u> | <u><u>\$ 2,144,000</u></u> |

Interfund transfers were needed to provide additional resources for current operations. The above interfund transfers were eliminated on the government-wide statement of net position because they were between governmental funds.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 9: 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 City's major governmental fund and all other governmental funds are presented below:

| Fund Balances | General | Other Governmental Funds | Total |
|----------------------------------|-----------------------------|--------------------------------|-----------------------------|
| <i>Nonspendable</i> | | | |
| Prepaid Items | \$ 96,183 | \$ - | \$ 96,183 |
| Materials and Supplies Inventory | 29,126 | 47,313 | 76,439 |
| <i>Total Nonspendable</i> | <u>125,309</u> | <u>47,313</u> | <u>172,622</u> |
| <i>Restricted for</i> | | | |
| Law Enforcement Trust - State | - | 30,237 | 30,237 |
| Law Enforcement Trust - Federal | - | 3,979 | 3,979 |
| Juvenile Diversion Program | - | 12,431 | 12,431 |
| D.A.R.E. Trust | - | 9,405 | 9,405 |
| Streets and Highways | - | 513,229 | 513,229 |
| Road Improvements | - | 567,646 | 567,646 |
| Cedar Road Water Main Ext. | - | 7,878 | 7,878 |
| Sidewalk Repairs | - | 147,197 | 147,197 |
| G.O. Debt Retirement | - | 63,057 | 63,057 |
| <i>Total Restricted</i> | <u>-</u> | <u>1,355,059</u> | <u>1,355,059</u> |
| <i>Committed to</i> | | | |
| Termination Benefits | 159,665 | - | 159,665 |
| Property Insurance | 11,033 | - | 11,033 |
| Underground Storage Tanks | 11,000 | - | 11,000 |
| Summer Day Camp | - | 364,464 | 364,464 |
| Equipment Replacement | - | 130,821 | 130,821 |
| Sanitary Sewer Improvement | - | 2,429,881 | 2,429,881 |
| Public Property Improvement | - | 951,201 | 951,201 |
| Mayfield Road Corridor | - | 550,041 | 550,041 |
| Other Purposes | 500 | - | 500 |
| <i>Total Committed</i> | <u>182,198</u> | <u>4,426,408</u> | <u>4,608,606</u> |
| <i>Assigned to</i> | | | |
| Fiscal Year 2015 Appropriations | 1,573,349 | - | 1,573,349 |
| Purchases on Order | 75,319 | - | 75,319 |
| <i>Total Assigned</i> | <u>1,648,668</u> | <u>-</u> | <u>1,648,668</u> |
| <i>Unassigned</i> | 9,858,647 | (71,580) | 9,787,067 |
| Total Fund Balances | <u><u>\$ 11,814,822</u></u> | <u><u>\$ 5,757,200</u></u> | <u><u>\$ 17,572,022</u></u> |

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 10: CAPITAL ASSETS

A summary of changes in capital assets during 2015 follows:

| | Balance 12/31/2014 | Additions | Reductions | Balance 12/31/2015 |
|--|-----------------------|-----------------------|--------------------|-----------------------|
| <u>Governmental Activities</u> | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 3,024,620 | \$ - | \$ - | \$ 3,024,620 |
| Construction in Progress | - | 329,815 | - | 329,815 |
| Total Capital Assets Not Being Depreciated | <u>3,024,620</u> | <u>329,815</u> | <u>-</u> | <u>3,354,435</u> |
| Capital Assets, being depreciated: | | | | |
| Land Improvements | 1,242,738 | - | - | 1,242,738 |
| Buildings | 9,396,030 | 6,853 | - | 9,402,883 |
| Machinery and Equipment | 2,444,852 | 256,972 | (17,802) | 2,684,022 |
| Furniture and Fixtures | 824,244 | 20,547 | - | 844,791 |
| Vehicles | 3,900,551 | 430,745 | (123,232) | 4,208,064 |
| Infrastructure | | | | |
| Roads | 41,926,664 | - | - | 41,926,664 |
| Water Mains | 1,446,077 | - | - | 1,446,077 |
| Sanitary Sewers | 10,364,903 | - | - | 10,364,903 |
| Storm Sewers | 2,649,946 | - | - | 2,649,946 |
| Totals at Historical Cost | <u>74,196,005</u> | <u>715,117</u> | <u>(141,034)</u> | <u>74,770,088</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (1,065,308) | (22,959) | - | (1,088,267) |
| Buildings | (3,884,279) | (238,189) | - | (4,122,468) |
| Machinery and Equipment | (1,928,730) | (117,779) | 6,528 | (2,039,981) |
| Furniture and Fixtures | (691,133) | (29,503) | - | (720,636) |
| Vehicles | (2,668,512) | (260,488) | 109,184 | (2,819,816) |
| Infrastructure | | | | |
| Roads | (25,887,371) | (1,703,455) | - | (27,590,826) |
| Water Mains | (502,439) | (28,922) | - | (531,361) |
| Sanitary Sewers | (3,441,678) | (207,298) | - | (3,648,976) |
| Storm Sewers | (1,145,754) | (55,530) | - | (1,201,284) |
| Total Accumulated Depreciation | <u>(41,215,204)</u> | <u>(2,664,123)</u> * | <u>115,712</u> | <u>(43,763,615)</u> |
| Total Capital Assets, being Depreciated, Net | <u>32,980,801</u> | <u>(1,949,006)</u> | <u>(25,322)</u> | <u>31,006,473</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 36,005,421</u> | <u>\$ (1,619,191)</u> | <u>\$ (25,322)</u> | <u>\$ 34,360,908</u> |

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 10: CAPITAL ASSETS (Continued)

*Depreciation expense was charge to governmental functions as follows:

| | Other Capital Assets | Infrastructure | Total |
|----------------------------------|----------------------------|----------------|--------------|
| Security of Persons and Property | \$ 338,665 | \$ - | \$ 338,665 |
| Basic Utilities | 62,496 | 291,750 | 354,246 |
| Community Environment | 8,830 | - | 8,830 |
| Leisure Time Activities | 66,674 | - | 66,674 |
| Transportation | 61,143 | 1,703,455 | 1,764,598 |
| General Government | 131,110 | - | 131,110 |
| Total Deprecation Expense | \$ 668,918 | \$ 1,995,205 | \$ 2,664,123 |

NOTE 11: COMPENSATED ABSENCES

City employees generally earn vacation ranging from two to five weeks based on length of service. It is fully vested when earned. Normally, all vacation time should be taken in the year available unless written approval for carryover of vacation is obtained. Upon termination of employment the employee receives all accumulated vacation time and the pro-rated portion earned for the current year. All employees, earn sick leave of 15 days per year; 4.615 hours for every 80 hours paid (excluding overtime). Employees who have at least 10 years of service receive, upon termination of employment, one half of the first 1,000 hours of accumulated sick leave and then one-third of anything over 1,000 hours.

NOTE 12: DEFINED BENEFIT PENSION PLANS

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 Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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.

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.

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

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

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

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.

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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

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

| | State and Local |
|--|--------------------|
| 2015 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| 2015 Actual Contribution Rates | |
| 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 \$550,594 for 2015. Of this amount, \$55,115 is reported as an intergovernmental payable.

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

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

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

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

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

Members 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:

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

| | Police | Firefighters |
|--|---------|--------------|
| 2015 Statutory Maximum Contribution Rates | | |
| 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 % |
| 2015 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 | 0.50 |
| Total Employer | 19.50 % | 24.00 % |
| Employee: | | |
| 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 actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,325,511 for 2015. Of this amount, \$109,109 is reported as an intergovernmental payable.

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 | \$4,609,156 | \$7,680,383 | \$ 8,029,968 | \$20,319,507 |
| Proportion of the Net Pension Liability | 0.038215% | 0.1482580% | 0.1550062% | |
| Pension Expense | 503,230 | 749,024 | 787,701 | 2,039,955 |

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

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 |
|--|-----------|----------------|--------------|-------------|
| Deferred Outflows of Resources | | | | |
| Differences between expected and actual experience | \$245,931 | \$331,017 | \$346,084 | \$923,032 |
| City contributions subsequent to the measurement date | 550,594 | 653,254 | 672,257 | 1,876,105 |
| Total Deferred Outflows of Resources | \$796,525 | \$984,271 | \$1,018,341 | \$2,799,137 |
| Deferred Inflows of Resources | | | | |
| Net difference between projected and actual earnings on pension plan investments | \$80,974 | \$0 | \$0 | \$80,974 |

\$1,876,105 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:

| | OPERS | OP&F Police | OP&F Fire | Total |
|--------------------------|-----------|----------------|--------------|-----------|
| Year Ending December 31: | | | | |
| 2016 | \$24,121 | \$82,754 | \$86,521 | \$193,396 |
| 2017 | 24,121 | 82,754 | 86,521 | \$193,396 |
| 2018 | 55,232 | 82,754 | 86,521 | \$224,507 |
| 2019 | 61,483 | 82,755 | 86,521 | \$230,759 |
| Total | \$164,957 | \$331,017 | \$346,084 | \$842,058 |

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

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 |

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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

Actuarial Assumptions – OPERS (Continued)

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:

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 8,479,526 | \$ 4,609,156 | \$ 1,349,372 |

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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

Actuarial Assumptions – OP&F (Continued)

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|------------------------------|------------------------------|---|
| 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 | <u>120.00 %</u> | |

* levered 2x

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 12: **DEFINED BENEFIT PENSION PLANS** (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 | \$ 21,729,791 | \$ 15,710,351 | \$ 10,613,714 |

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

A. **Ohio Public Employees Retirement System**

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 13: POST-EMPLOYMENT BENEFIT PLANS (Continued)

A. Ohio Public Employees Retirement System (Continued)

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, 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 to fund OPERS health care plans. 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.

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 \$92,174, \$93,905, and \$47,064, respectively; 91 percent has been contributed for 2015 and 100% has been contributed for 2014 and 2013.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 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 \$17,079 and \$14,343 for the year ended December 31, 2015, \$16,286 and \$13,384 for the year ended December 31, 2014, and \$110,179 and \$96,969 for the year ended December 31, 2013, respectively; 90 percent has been contributed for 2015 and 100% has been contributed for 2014 and 2013.

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City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City for the year ended December 31, 2015, are as follows:

| | Original Issuance Amount | Maturity Year | Restated Balance 12/31/2014 | Increase | Decrease | Balance 12/31/2015 | Amount Due In a Year |
|---|--------------------------------|------------------|-----------------------------------|---------------------|-----------------------|-----------------------|----------------------------|
| <u>Long-Term Obligations - Governmental Activities</u> | | | | | | | |
| <i>OPWC Loans:</i> | | | | | | | |
| OPWC Loan - Mayfield Rd./I-271 Interchange, 0.00% | \$ 271,155 | 2015 | \$ 6,672 | \$ - | \$ (6,672) | \$ - | \$ - |
| OPWC Loan - Mayfield Rd. Improvements, 0.00% | \$ 923,156 | 2033 | 853,920 | - | (46,158) | 807,762 | 46,158 |
| OPWC Loan - Mayfield Rd. Sanitary Sewer, 0.00% | \$ 805,000 | 2028 | 523,250 | - | (40,250) | 483,000 | 40,250 |
| <i>Total OPWC Loans</i> | | | <u>1,383,842</u> | <u>-</u> | <u>(93,080)</u> | <u>1,290,762</u> | <u>86,408</u> |
| <i>Other Long-Term Liabilities:</i> | | | | | | | |
| Net Pension Liability: | | | | | | | |
| OPERS | | | 4,505,051 | 104,105 | - | 4,609,156 | - |
| OP&F | | | 14,769,918 | 940,433 | - | 15,710,351 | - |
| Total Net Pension Liability | | | <u>19,274,969</u> | <u>1,044,538</u> | <u>-</u> | <u>20,319,507</u> | <u>-</u> |
| Compensated Absences | | | 2,911,608 | 1,044,420 | (1,020,752) | 2,935,276 | 927,585 |
| <i>Total Other Long-Term Liabilities</i> | | | <u>22,186,577</u> | <u>2,088,958</u> | <u>(1,020,752)</u> | <u>23,254,783</u> | <u>927,585</u> |
| Total Long-Term Obligations - Governmental Activities | | | <u>\$ 23,570,419</u> | <u>\$ 2,088,958</u> | <u>\$ (1,113,832)</u> | <u>\$ 24,545,545</u> | <u>\$ 1,013,993</u> |

The Ohio Public Works Commission (OPWC) loan - Mayfield Road Improvements' debt obligations will be paid from the Road Improvement Capital Project Fund by revenues transferred from the General Fund. The OPWC loan - Mayfield Road Sanitary Sewers' debt obligations will be paid from the Sanitary Sewer Improvement Capital Projects Fund. The OPWC loan for the Mayfield Rd./I-271 Interchanges project is paid out of the Road Improvement Capital Projects Fund. These loans provided by OPWC are interest free.

Compensated absences will be paid from the Accrued Compensation Reserve Fund. The City will pay workers' compensation claims from the Self-Insurance Fund.

See Note 12 for further information regarding Net Pension Liability.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2015 follows:

| Year | Total OPWC Principal |
|-----------|----------------------------|
| 2016 | \$ 86,408 |
| 2017 | 86,408 |
| 2018 | 86,408 |
| 2019 | 86,408 |
| 2020 | 86,408 |
| 2021-2025 | 432,040 |
| 2026-2030 | 311,290 |
| 2031-2033 | 115,392 |
| | \$ 1,290,762 |

The Ohio Revised Code provides that net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the City. The Ohio Revised Code further provides that total voted and unvoted net debt of the City less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2015, were an overall debt margin of \$54,358,791 and an unvoted debt margin of \$28,503,680.

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

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the cities of Bedford Heights, Highland Heights, Hudson, Mayfield Heights, Richmond Heights, South Euclid, Eastlake, Solon, Maple Heights, 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 Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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 \$147,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool, which includes additional umbrella coverage. Any loss over the stop loss coverage 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 paid \$120,887 in premiums from the General Fund, which represents 8.40 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of University Heights, 2300 Warrensville Center Road, University Heights, OH 44118.

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 the 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 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. Starting in 2008, all employees must contribute a portion of the monthly premiums for medical and prescription coverage. For 2015, the employee portion was either \$181.20 or \$128.94 per month for a single contract, or \$329.46 or \$234.46 per month for a family contract (amounts provided are for PPO option and HSA option, respectively).

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

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

In prior years, the City began offering a Health Savings Account (HSA) alternative for its employees. The employees that participated in this program had different monthly premiums. In addition, the City fully funded the deductible for the HSA participants, \$2,600 for a single contract, and \$5,200 for a family contract. The funds were deposited directly into the participant's HSA account established with Charter One/Citizens Bank.

Medical and prescription, dental, and vision benefits are provided through Aetna and Humana, respectively. 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 for the traditional insurance program is \$1,177.21 for single coverage and \$3,178.49 for family coverage and the monthly premium for the HSA program is \$671.01 for single coverage and \$1,811.73 for family coverage. The monthly premium for dental benefits is \$38.62 for single coverage and \$105.55 for family coverage. The monthly coverage for vision benefits is \$4.36 for single coverage and \$10.60 for family coverage.

Starting in calendar year 2010, the City began its participation with the Ohio Bureau of Workers' Compensation (BWC) Retrospective Rating Plan. The plan involves the payment of a minimum premium for administrative services and stop loss coverage plus the actual claim costs for employees injured. The plan is administered by Comp Management Inc. Payments are made directly to the BWC for actual claims processed. The City's Self-Insurance internal service fund pays for all claims, claim reserves and administrative costs of the program, while the City's General Fund pays the annual premium to BWC. The City's retrospective rating plan was only for the periods from 2010 through 2013. Starting in 2014, the City utilized the group rating plan.

The claims liability of \$0 reported at December 31, 2014, was estimated based on actuarial determination of future claims and claim payment trends including the settlement to the Bureau after the tenth year. The liability was based on the requirement of Governmental Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported.

| December 31, | Beginning of Year | Current Year Claims | Claim Payments | End of Year |
|--------------|----------------------|------------------------|-------------------|----------------|
| 2014 | \$ 29,559 | \$ 814 | \$ (29,559) | \$ 814 |
| 2015 | 814 | - | (814) | - |

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 17: **CONTINGENT LIABILITIES**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of the majority of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

NOTE 18: **JOINTLY GOVERNED ORGANIZATIONS**

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESRCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESRCOG is a council comprised of one representative from each of the five participating municipalities. The Council operates in accordance with a written agreement establishing ESRCOG 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 five (5) participating member municipalities. In 2014, all participating municipalities contributed \$70,000.

The Council adopts a budget for ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2015, the City contributed \$14,000, which represents 20.0 percent of the total contributions.

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, 6622 Wilson Mills Road, Mayfield Village, Ohio 44143.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2015

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 Mayfield Village, 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 \$205,581, which represents 28.48 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.

NOTE 19: REVENUE SHARING AGREEMENT

Since 1996, the City has been sharing income tax revenue with the Mayfield City School District. Several commercial properties were developed and received property tax abatements from the City through the creation of a Community Reinvestment Area (CRA) and an Enterprise Zone.

During 2015, the City disbursed \$158,161 to the School District as a result of the revenue sharing agreements.

NOTE 20: OTHER SIGNIFICANT 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> |
|------------------------|-------------------------------------|
| Major Fund: | |
| General | \$ 75,319 |
| Nonmajor Funds: | |
| Special Revenue Funds | 36,347 |
| Capital Projects Funds | 656,895 |
| Total | <u>\$ 768,561</u> |

City of Mayfield Heights, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System – Traditional Plan Last Two Years (1)

| | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|
| City's Proportion of the Net Pension Liability | 0.038215% | 0.038215% |
| City's Proportionate Share of the Net Pension Liability | \$ 4,609,156 | \$ 4,505,051 |
| City's Covered-Employee Payroll | \$ 4,700,683 | \$ 4,688,307 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll | 98.05% | 96.09% |
| 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 Mayfield Heights, Ohio

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

| Police | 2014 | 2013 |
|--|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.1482580% | 0.1482580% |
| City's Proportionate Share of the Net Pension Liability | \$7,680,383 | \$7,220,630 |
| City's Covered-Employee Payroll | \$3,264,674 | \$3,112,727 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll | 235.26% | 231.97% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.20% | 73.00% |
| Fire | 2014 | 2013 |
| City's Proportion of the Net Pension Liability | 0.1550062% | 0.1550062% |
| City's Proportionate Share of the Net Pension Liability | \$8,029,968 | \$7,549,288 |
| City's Covered-Employee Payroll | \$2,779,170 | \$2,706,772 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll | 288.93% | 278.90% |
| 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 Mayfield Heights, Ohio

Required Supplementary Information Schedule of City Contributions Ohio Public Employees Retirement System – Traditional Plan Last Three Years (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|----------------|
| Contractually Required Contribution | \$550,594 | \$564,082 | \$ 609,480 |
| Contributions in Relation to the Contractually Required Contribution | <u>(550,594)</u> | <u>(564,082)</u> | <u>609,480</u> |
| Contribution Deficiency / (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City's Covered-Employee Payroll | \$4,588,283 | \$4,700,683 | \$4,688,307 |
| Pension Contributions as a Percentage of Covered-Employee Payroll | 12.00% | 12.00% | 13.00% |

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

City of Mayfield Heights, Ohio

Required Supplementary Information Schedule of City 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 | \$653,254 | \$620,288 | \$489,632 | \$389,929 | \$385,353 | \$390,422 | \$375,344 | \$370,911 | \$545,387 | \$508,430 |
| Fire | <u>\$672,257</u> | <u>\$653,105</u> | <u>\$547,580</u> | <u>\$454,371</u> | <u>\$469,796</u> | <u>\$466,259</u> | <u>\$447,038</u> | <u>\$424,685</u> | <u>\$571,369</u> | <u>\$523,655</u> |
| Total Required Contributions | \$1,325,511 | \$1,273,393 | \$1,037,212 | \$844,300 | \$855,149 | \$856,681 | \$822,382 | \$795,596 | \$1,116,756 | \$1,032,085 |
| Contributions in Relation to the Contractually Required Contribution | <u>(\$1,325,511)</u> | <u>(\$1,273,393)</u> | <u>(\$1,037,212)</u> | <u>(\$844,300)</u> | <u>(\$855,149)</u> | <u>(\$856,681)</u> | <u>(\$822,382)</u> | <u>(\$795,596)</u> | <u>(\$1,116,756)</u> | <u>(\$1,032,085)</u> |
| 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 | \$3,438,179 | \$3,264,674 | \$3,112,727 | \$3,058,267 | \$3,022,376 | \$3,062,133 | \$2,943,875 | \$2,909,106 | \$4,277,545 | \$4,327,064 |
| Fire | \$2,860,668 | \$2,779,170 | \$2,706,772 | \$2,634,035 | \$2,723,455 | \$2,702,951 | \$2,591,525 | \$2,461,942 | \$3,312,284 | \$3,222,492 |
| <u>Pension Contributions as a Percentage of Covered- Employee Payroll</u> | | | | | | | | | | |
| Police | 19.00% | 19.00% | [2] | 12.75% | 12.75% | 12.75% | 12.75% | 12.75% | 12.75% | 11.75% |
| Fire | 23.50% | 23.50% | [2] | 17.25% | 17.25% | 17.25% | 17.25% | 17.25% | 17.25% | 16.25% |

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



Dave Yost • Auditor of State

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

City of Mayfield Heights
Cuyahoga County
6154 Mayfield Road
Mayfield Heights, Ohio 44124

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, (the 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 August 24, 2016, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

August 24, 2016



Dave Yost • Auditor of State

CITY OF MAYFIELD 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
SEPTEMBER 8, 2016**