

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

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



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Members of Council
City of Mayfield Heights
6154 Mayfield Road
Mayfield Heights, Ohio 44124

We have reviewed the *Independent Auditor's Report* of the City of Mayfield Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2019 through December 31, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

July 9, 2020

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**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

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

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 24 to the basic financial statements, during 2019, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. As discussed in Note 3 to the basic financial statements, the City restated beginning net position due to a change in the valuation of capital assets. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

June 23, 2020

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City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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, 2019. 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 increased from \$66,504,096 to \$70,894,083, a total increase of \$4,389,987. This can be attributed to the increase in Deferred Outflows of Resources – Pension due to pension and OPEB adjustments per GASB Statements GASB 68 and 75.

Total liabilities and deferred inflows of resources of the City decreased from \$64,939,832 to \$58,651,665, a total decrease of \$6,288,167. This can most significantly be attributed to the decrease in Net OPEB Liability due to adjustments per GASB Statement 75.

Total net position increased from \$1,564,264 to \$12,242,418, a total increase of \$10,678,154. This is an increase of 683 percent. See the above explanations on total assets and total liabilities and deferred inflows of resources as to explain why net position increased.

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, 2019

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 18. 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 funds are the General Fund and Road Improvement Fund.

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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.

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.

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

The Statement of Net Position in Table 1 provides a summary of the City's net position for 2019 compared to 2018.

Table 1 - Net Position

	Governmental Activities	
	2019	2018 *
<u>Assets</u>		
Current and Other Assets	\$ 30,155,032	\$ 30,731,821
Capital Assets	28,540,235	29,099,099
Total Assets	58,695,267	59,830,920
<u>Deferred Outflows of Resources</u>		
Pension	10,070,409	4,618,707
OPEB	2,128,407	2,054,469
Total Deferred Outflows of Resources	12,198,816	6,673,176
<u>Liabilities</u>		
Other Liabilities	2,450,270	2,410,200
Long-term Liabilities:		
Due within One Year	3,511,316	4,579,240
Due in More than One Year:		
Net Pension Liability	35,968,414	25,065,914
Net OPEB Liability	7,300,936	21,577,828
Other Amounts	2,872,771	3,184,641
Total Liabilities	52,103,707	56,817,823
<u>Deferred Inflows of Resources</u>		
Property Taxes	5,103,214	5,062,856
Pension	428,168	2,413,524
OPEB	1,016,576	645,629
Total Deferred Inflows of Resources	6,547,958	8,122,009
<u>Net Position</u>		
Net Investment in Capital Assets	27,056,390	26,403,746
Restricted	2,037,957	5,299,828
Unrestricted	(16,851,929)	(30,139,310)
Total Net Position	\$ 12,242,418	\$ 1,564,264

* Restated

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2019 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pension – an Amendment of GASB Statement 27." The City previously adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB).

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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

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

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

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

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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

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

Total assets and deferred outflows of resources for the City are \$70,894,083. The largest portion of the City's assets is in capital assets totaling \$28,540,235, which represents 40.26 percent of the total. The City's net capital assets decreased by \$558,864 as a result of depreciation. Total liabilities and deferred inflows of resources for the City are \$52,103,707 and \$6,547,958, respectively. The most significant long-term liabilities are Net Pension Liability and Net OPEB Liability for \$35,968,414 and \$7,300,936, respectively. Property taxes, for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance year 2020 operations and pension, have been recorded as deferred inflows of resources. Total net position for the City is \$12,242,418. The most significant component of the net position is represented by the net investment in capital assets of \$27,056,390.

The implementation of GASB Statement No. 68 and 75 requires the reader to perform additional calculations to determine what the City's Total Net Position at December 31, 2019 would be without consideration of the Net Pension and OPEB Liabilities. This is an important exercise, as the State Pension Systems (OPERS and OP&F) collect, hold, invest, and distribute pensions to our employees, not the City of Mayfield Heights. These calculations are as follows:

	Governmental Activities
Total Net Position at December 31, 2019 (with GASB 68 and 75)	\$ 12,242,418
GASB 68/75 Calculations:	
Add:	
Deferred Inflows related to Pension	428,168
Deferred Inflows related to OPEB	1,016,576
Net Pension Liability	35,968,414
Net OPEB Liability	7,300,936
Less:	
Deferred Outflows related to Pension	(10,070,409)
Deferred Outflows related to OPEB	(2,128,407)
Total Net Position (without GASB 68 and 75)	\$ 44,757,696

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Table 2 shows the changes in Net Position for the years ended December 31, 2019 and December 31, 2018 and corresponds to the Statement of Activities on page 17.

Table 2 - Changes in Net Position

	Governmental Activities	
	2019	2018
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,983,904	\$ 2,170,484
Operating Grants and Contributions	1,340,287	1,086,392
Capital Grants and Contributions	299,000	-
General Revenues:		
Property Taxes	5,286,273	4,794,824
Municipal Income Taxes	16,831,413	16,922,402
Other Taxes	323,331	308,790
Grants and Entitlements not Restricted to Specific Programs	1,003,425	995,072
Other	708,972	362,194
Total Revenues	27,776,605	26,640,158
<u>Program Expenses</u>		
Security of Persons and Property	2,471,587	16,607,316
Public Health Services	509,639	389,692
Leisure Time Activities	2,252,076	1,942,398
Community Environment	1,367,760	1,182,607
Basic Utility Services	1,344,736	1,155,088
Transportation	5,625,808	6,194,582
General Government	3,464,796	3,299,936
Interest and Fiscal Charges	62,049	75,041
Total Program Expenses	17,098,451	30,846,660
(Decrease) in Net Position	10,678,154	(4,206,502)
Net Position, Beginning of Year, Restated	1,564,264	5,770,766
Net Position, End of Year	\$ 12,242,418	\$ 1,564,264

Governmental Activities

Governmental activities increased the City's net position by \$10,678,154. In 2018, pension and OPEB expense (including contractually required contributions) was \$2,928,369. In 2019, pension and OPEB expense (including contractually required contributions) was (\$10,514,441) for a decrease in expenses of \$13,442,810. This decrease is attributable to the Ohio Police and Fire Pension Fund (OP&F) making a change to its health care model.

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Beginning January 1, 2019 OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place will be a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use for reimbursement of health care expenses. As a result of changing models, OP&F management expects that it will be able to provide stipends to participants for the next 15 years. This change was the most significant factor in the decrease of the City's security of persons and property expense by \$14,135,729.

Several revenue sources fund the City's governmental activities. The most significant revenue source is municipal income tax, which accounts for 60.60 percent of the City's revenue in 2019. 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. Municipal income taxes decreased by less than 1 percent in 2019 compared to 2018.

The other major revenue source for the City is property tax, accounting for 19.03 percent of revenues in 2019. The City's charter millage is 10.00 and has remained the same since 1951. The tax duplicate for collection year 2019 was \$568,287,740 and has been certified at \$572,995,570 for the 2020 collection year. There was an increase of 10.25 percent in 2019 compared to 2018 due to an increase in assessed property tax values.

The provisions of GASB Statements 68 and 75 require the City to recognize a pension/OPEB adjustment that reduces expenses by \$10,514,441 in 2019 and increases expenses by \$2,928,369 in 2018. As a result, it is difficult to ascertain the true operational cost of services and the changes in cost of service from year to year. The table below shows the total expenses by function with the GASB Statements 68 and 75 pension and OPEB costs removed.

	Governmental Activities	
	2019	2018
EXPENSES		
Program Expenses:		
Security of Persons and Property	14,328,062	14,216,832
Public Health Services	488,779	384,975
Leisure Time Activities	1,922,528	1,826,266
Community Environment	1,153,401	1,101,839
Basic Utility Services	1,344,736	1,155,088
Transportation	5,214,436	5,995,707
General Government	3,098,901	3,162,543
Interest and Fiscal Charges	62,049	75,041
Total Expenses	27,612,892	27,918,291

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Using the adjusted amounts from the table on the previous page, there was a 1.09 percent decrease in the City's total governmental activities in 2019 compared to 2018. The largest program function for the City is security of persons and property, which includes Police and Fire protection. This function accounts for 51.89 percent of total expenses in 2019, and increased by less than 1 percent from 2018. The second most significant program function is transportation, which includes the City's service department, road repairs, and snow removal. This accounts for 18.88 percent of expenses in 2019, and decreased by 13.03 from 2018. The decrease is due to less road repair expenditures in 2019.

The City's Funds

Information about the City's major funds begins on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$32,655,795 and expenditures of \$33,239,097 (including other financing sources and uses).

The most significant fund is the General Fund with a year-end fund balance of \$14,421,696, which is an increase of \$631,505 from 2018. The General Fund's total revenues and other financing sources increased by 2.19% and total expenditures and other financing uses increased by 8.46% compared to 2018. The most significant change was an increase of \$1,120,000 in transfers out to support the City's other governmental funds.

The Road Improvement Fund had a year-end balance of -\$312,320, due to accrued liabilities exceeding total assets. The majority of liabilities in this fund consist of bond anticipation notes. The General Fund is liable for any deficit in this fund and will provide transfers when cash is required. Total revenues and other financing sources decreased by \$1,016,424. In 2018, the City issued bond anticipations notes totaling \$3,600,000. In 2019, the City rolled over \$2,500,000 worth of the notes and paid down the remaining \$1,100,000. The drop in the rolled over balance resulted in the decrease in total revenues and other financing sources. Total expenditures and other financing sources increased by \$1,000,856. This was due to an increase in debt principal retirement, from the City rolling over and paying down the 2018 bond anticipation notes.

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.

City of Mayfield Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

The City's original estimated revenue and other financing sources of \$23,981,329 nearly matched the final estimate of \$23,984,330. Actual revenues and other financing sources of \$25,361,252 exceed the estimates mostly due to higher municipal income taxes, intergovernmental revenues, and other revenues. The original budget for expenditures and other financing uses of \$25,238,938 was increased by amended appropriations to a total of \$25,813,438, for an increase of \$574,500. Actual expenditures and other financing uses were \$853,302 less than appropriated. The security of persons and properties and general government expense functions had the most significant positive variances compared to appropriations, as actual operating expenditures were less than estimated.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets as of December 31, 2019, amounts to \$28,540,235 (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.

	Governmental Activities	
	2019	2018 *
Land	\$ 1,118,226	\$ 1,118,226
Construction-in-progress	928,677	512,651
Land Improvements	77,942	92,013
Buildings	4,793,644	5,018,783
Machinery and Equipment	744,897	538,069
Furniture and Fixtures	68,975	83,200
Vehicles	1,898,593	976,543
Infrastructures:		
Roads	10,996,976	12,555,559
Water Mains	799,028	827,950
Sanitary Sewers	5,886,735	6,094,033
Storm Sewers	1,226,542	1,282,072
Total Capital Assets	\$ 28,540,235	\$ 29,099,099

*Restated

Total capital assets for governmental activities decreased by \$558,864 from 2018. The reason for this decrease can be attributed to the annual depreciation expenses exceeding 2019 capital additions.

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

City of Mayfield Heights, Ohio
Management’s Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Long-Term Obligations

The City had the following long-term obligations outstanding at December 31, 2019 and 2018. See Note 15 for details regarding the City’s long-term obligations.

Table 4 - Long-Term Obligations at December 31

	Governmental Activities	
	2019	2018
Bond Anticipation Notes	\$ 2,507,056	\$ 3,606,559
OPWC Loans	919,533	1,031,538
Total Outstanding Debt	\$ 3,426,589	\$ 4,638,097

As of December 31, 2019, the City had no outstanding general obligation bonds. The City has utilized loans from the Ohio Public Works Commission (OPWC) and Bond Anticipation Notes to fund several of its major capital improvement projects. The City continues to have no long-term general obligation debt.

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 and an insignificant Bond Anticipation Note, 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 2019, City Council passed an increase of the income tax credit for taxes paid by residents to other municipalities from 50% to 100%. In April 2020, Mayfield Heights residents voted to increase the City’s income tax rate from 1.0% to 1.5%. The tax increase, when considered with the increased income tax credit, will bring in an estimated \$4 million to \$5 million of additional tax revenue to the City. The funds are earmarked for repairs to local infrastructure, including roads, sidewalks, the City pool.

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, Karen Fegan, 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 KarenFegan@mayfieldheights.org

City of Mayfield Heights, Ohio
Statement of Net Position
December 31, 2019

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 18,876,114
Materials and Supplies Inventory	146,018
Accounts Receivable	225,242
Accrued Interest Receivable	42,108
Intergovernmental Receivable	918,880
Prepaid Items	96,074
Municipal Income Taxes Receivable	4,502,659
Property Taxes Receivable	5,317,237
Special Assessments Receivable	2,627
Other Taxes Receivable	28,073
Nondepreciable Capital Assets	2,046,903
Depreciable Capital Assets	26,493,332
Total Assets	58,695,267
DEFERRED OUTFLOWS OF RESOURCES	
Pension	10,070,409
OPEB	2,128,407
Total Deferred Outflows of Resources	12,198,816
LIABILITIES	
Accounts Payable	226,862
Contracts Payable	273,110
Accrued Wages and Benefits	541,834
Intergovernmental Payable	221,409
Accrued Interest Payable	81,000
Retainage Payable	2,950
Notes Payable	1,103,105
Long-term Liabilities:	
Due within one year	3,511,316
Due in more than one year:	
Net Pension Liability (See Note 11)	35,968,414
Net OPEB Liability (See Note 12)	7,300,936
Other Amounts due in more than one year	2,872,771
Total Liabilities	52,103,707
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	5,103,214
Pension	428,168
OPEB	1,016,576
Total Deferred Inflows of Resources	6,547,958
NET POSITION	
Net Investment in Capital Assets	27,056,390
Restricted for:	
Debt Service	724,602
Capital Projects	326,897
Streets	861,339
Other Purposes	125,119
Unrestricted	(16,851,929)
Total Net Position	\$ 12,242,418

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2019

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 2,471,587	\$ 895,854	\$ 403,657	\$ -	\$ (1,172,076)
Public Health Services	509,639	-	-	-	(509,639)
Leisure Time Activities	2,252,076	393,738	-	-	(1,858,338)
Community Environment	1,367,760	402,320	45,430	-	(920,010)
Basic Utility Services	1,344,736	-	-	235,000	(1,109,736)
Transportation	5,625,808	20,652	828,550	64,000	(4,712,606)
General Government	3,464,796	271,340	62,650	-	(3,130,806)
Interest and Fiscal Charges	62,049	-	-	-	(62,049)
Total Governmental Activities	<u>\$ 17,098,451</u>	<u>\$ 1,983,904</u>	<u>\$ 1,340,287</u>	<u>\$ 299,000</u>	<u>(13,475,260)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					4,454,108
Debt Service Purpose					517,021
Other Purposes					315,144
Municipal Income Taxes levied for:					
General Purposes					16,831,413
Other Taxes					323,331
Grants & Entitlements not restricted to specific programs					1,003,425
Investment Income					355,494
Gain on Sale of Capital Assets					28,839
All Other Revenues					324,639
Total General Revenues					<u>24,153,414</u>
Change in Net Position					10,678,154
Net Position - Beginning of Year, Restated					<u>1,564,264</u>
Net Position - End of Year					<u><u>\$ 12,242,418</u></u>

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2019

	<u>General Fund</u>	<u>Road Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Equity in Pooled Cash and Cash Equivalents	\$ 11,956,611	\$ 905,016	\$ 5,811,625	\$ 18,673,252
Materials and Supplies Inventory	86,359	-	59,659	146,018
Accrued Interest Receivable	42,108	-	-	42,108
Accounts Receivable	134,480	-	90,762	225,242
Interfund Receivable	215,000	-	-	215,000
Intergovernmental Receivable	494,538	-	424,342	918,880
Prepaid Items	96,074	-	-	96,074
Municipal Income Taxes Receivable	4,502,659	-	-	4,502,659
Property Taxes Receivable	4,495,717	-	821,520	5,317,237
Special Assessments Receivable	-	-	2,627	2,627
Other Taxes Receivable	18,073	10,000	-	28,073
Total Assets	<u>\$ 22,041,619</u>	<u>\$ 915,016</u>	<u>\$ 7,210,535</u>	<u>\$ 30,167,170</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 165,802	\$ -	\$ 61,060	\$ 226,862
Accrued Wages and Benefits	519,967	-	21,867	541,834
Contracts Payable	-	99,636	173,474	273,110
Intergovernmental Payable	211,457	-	9,952	221,409
Accrued Interest Payable	-	24,750	-	24,750
Retainage Payable	-	2,950	-	2,950
Interfund Payable	-	-	215,000	215,000
Notes Payable	-	1,100,000	3,105	1,103,105
Total Liabilities	<u>897,226</u>	<u>1,227,336</u>	<u>484,458</u>	<u>2,609,020</u>
Deferred Inflows of Resources:				
Property Taxes	4,314,768	-	788,446	5,103,214
Unavailable Revenue - Delinquent Property Taxes	180,949	-	33,074	214,023
Unavailable Revenue - Income Taxes	1,783,166	-	-	1,783,166
Unavailable Revenue - Other	443,814	-	337,254	781,068
Total Deferred Inflows of Resources	<u>6,722,697</u>	<u>-</u>	<u>1,158,774</u>	<u>7,881,471</u>
Fund Balances:				
Nonspendable	182,433	-	59,659	242,092
Restricted	-	-	1,781,670	1,781,670
Committed	303,044	-	3,725,974	4,029,018
Assigned	2,520,233	-	-	2,520,233
Unassigned	11,415,986	(312,320)	-	11,103,666
Total Fund Balances	<u>14,421,696</u>	<u>(312,320)</u>	<u>5,567,303</u>	<u>19,676,679</u>
Total Liabilities, Deferred Inflows of Resources & Fund Balances	<u>\$ 22,041,619</u>	<u>\$ 915,016</u>	<u>\$ 7,210,535</u>	<u>\$ 30,167,170</u>

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, 2019

Total Governmental Fund Balances		\$ 19,676,679
<i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		28,540,235
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	214,023	
Municipal Income taxes	1,783,166	
Special assessments	2,627	
Intergovernmental	644,344	
Charges for services	<u>134,097</u>	
Total		2,778,257
In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.		(56,250)
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/OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	10,070,409	
Deferred Inflows - Pension	(428,168)	
Net Pension Liability	(35,968,414)	
Deferred Outflows - OPEB	2,128,407	
Deferred Inflows - OPEB	(1,016,576)	
Net OPEB Liability	<u>(7,300,936)</u>	
Total		(32,515,278)
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	(919,533)	
Bond anticipation notes	(2,507,056)	
Compensated absences	<u>(2,957,498)</u>	
Total		<u>(6,384,087)</u>
Net Position of Governmental Activities		\$ <u>12,242,418</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, 2019

	General Fund	Road Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 4,478,863	\$ -	\$ 812,213	\$ 5,291,076
Municipal Income Taxes	16,948,074	-	-	16,948,074
Other Taxes	198,332	124,999	-	323,331
Intergovernmental	1,302,904	64,000	1,181,381	2,548,285
Investment Income	341,413	-	14,081	355,494
Fines, Licenses and Permits	598,306	-	-	598,306
Charges for Services	994,199	-	438,877	1,433,076
Contributions and Donations	3,300	-	8,150	11,450
All Other Revenues	306,533	4,630	13,476	324,639
Total Revenues	25,171,924	193,629	2,468,178	27,833,731
EXPENDITURES				
Current:				
Security of Persons and Property	13,720,151	-	344,764	14,064,915
Public Health Services	488,779	-	-	488,779
Leisure Time Activities	1,666,402	-	225,162	1,891,564
Community Environment	1,130,003	-	-	1,130,003
Basic Utility Services	965,269	-	-	965,269
Transportation	1,260,230	634,335	1,731,257	3,625,822
General Government	3,051,614	-	27,136	3,078,750
Capital Outlay	-	-	1,915,713	1,915,713
Debt Service:				
Principal Retirement	-	3,674,955	37,050	3,712,005
Interest and Fiscal Charges	-	88,425	12,852	101,277
Total Expenditures	22,282,448	4,397,715	4,293,934	30,974,097
Excess of Revenues Over (Under) Expenditures	2,889,476	(4,204,086)	(1,825,756)	(3,140,366)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	7,029	-	21,810	28,839
Notes Issued	-	2,500,000	-	2,500,000
Premium on Debt Issuance	-	-	28,225	28,225
Transfers In	-	-	2,265,000	2,265,000
Transfers Out	(2,265,000)	-	-	(2,265,000)
Total Other Financing Sources (Uses)	(2,257,971)	2,500,000	2,315,035	2,557,064
Net Change in Fund Balances	631,505	(1,704,086)	489,279	(583,302)
Fund Balances - Beginning of Year	13,737,801	1,391,766	5,129,864	20,259,431
Increase (Decrease) in Inventory	52,390	-	(51,840)	550
Fund Balances - End of Year	\$ 14,421,696	\$ (312,320)	\$ 5,567,303	\$ 19,676,679

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, 2019

Net Change in Fund Balances - Total Governmental Funds \$ (583,302)

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	1,953,834	
Depreciation	(2,512,698)	
Total		(558,864)

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

Delinquent property taxes	(4,803)	
Municipal Income taxes	(116,661)	
Special assessments	1,314	
Intergovernmental	44,161	
Charges for services	(9,976)	
Total		(85,965)

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of bond anticipation notes and premiums. (2,528,225)

Repayment of loan principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 3,712,005

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

Pension	2,292,910	
OPEB	37,662	
Total		2,330,572

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

Pension	(5,758,352)	
OPEB	13,942,221	
Total		8,183,869

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	168,286	
Change in inventory	550	
Accrued interest	11,500	
Amortization of bond premiums	27,728	
Total		208,064

Change in Net Position of Governmental Activities \$ 10,678,154

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, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Property Taxes	\$ 4,690,406	\$ 4,475,000	\$ 4,478,863	\$ 3,863
Municipal Income Taxes	15,680,065	16,600,000	16,965,150	365,150
Other Taxes	179,260	195,000	193,952	(1,048)
Charges for Services	942,663	960,500	1,019,921	59,421
Fines, Licenses and Permits	552,985	570,300	598,306	28,006
Intergovernmental	1,185,867	950,530	1,283,057	332,527
Investment Income	269,795	140,000	291,907	151,907
Contributions and Donations	3,050	-	3,300	3,300
All Other Revenues	477,238	92,000	519,767	427,767
Total Revenues	23,981,329	23,983,330	25,354,223	1,370,893
Expenditures:				
Current:				
Security of Persons and Property	14,202,469	14,297,469	13,828,227	469,242
Public Health Services	446,550	499,550	488,993	10,557
Leisure Time Activities	1,682,785	1,779,785	1,667,617	112,168
Community Environment	862,684	862,684	864,910	(2,226)
Basic Utility Services	892,900	892,900	892,522	378
Transportation	1,237,898	1,237,898	1,186,294	51,604
General Government	3,063,652	3,393,152	3,181,573	211,579
Total Expenditures	22,388,938	22,963,438	22,110,136	853,302
Excess of Revenues Over (Under) Expenditures	1,592,391	1,019,892	3,244,087	2,224,195
Other Financing Sources (Uses)				
Sale of Capital Assets	-	1,000	7,029	6,029
Transfers Out	(2,850,000)	(2,850,000)	(2,850,000)	-
Total Other Financings Sources (Uses)	(2,850,000)	(2,849,000)	(2,842,971)	6,029
Net Change in Fund Balance	(1,257,609)	(1,829,108)	401,116	2,230,224
Fund Balance - Beginning of Year	10,684,453	10,684,453	10,684,453	-
Prior Year Encumbrances Appropriated	248,922	248,922	248,922	-
Fund Balance - End of Year	<u>\$ 9,675,766</u>	<u>\$ 9,104,267</u>	<u>\$ 11,334,491</u>	<u>\$ 2,230,224</u>

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio
Statement of Fund Net Position
Proprietary Fund
December 31, 2019

	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, 2019

	Governmental Activities - Internal Service Fund
	<u> </u>
Net Position - Beginning of Year	\$ 202,862
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, 2019

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents - Beginning of Year	<u>202,862</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 202,862</u></u>

See accompanying notes to the basic financial statements

City of Mayfield Heights, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2019

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 374,596
Cash and Cash Equivalents: in Segregated Accounts	<u>85,276</u>
Total Assets	<u><u>\$ 459,872</u></u>
LIABILITIES	
Deposits Held and Due to Others	<u>\$ 459,872</u>
Total Liabilities	<u><u>\$ 459,872</u></u>

See accompanying notes to the basic financial statements

Notes to Basic Financial Statements

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

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 and emergency medical technicians, street maintenance, planning and zoning, 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. Components 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, a risk sharing pool, and an insurance pool. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Mayfield Union Cemetery, the Suburban Water Regional Council of Governments, the Community Partnership on Aging Council of Governments, and the Northeast Ohio Public Energy Council as presented in Note 19 to the basic financial statements. The City is also associated with the Northern Ohio Risk Management Association, a risk sharing pool (Notes 16 and 17), and the Ohio Government Benefit Cooperative, an insurance purchasing pool (Note 20).

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, 2019

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, 2019

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 major governmental funds:

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.

Road Improvement The Road Improvement Fund accounts for the financial resources collected for the City to make improvements to roads.

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 contractor 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, 2019

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, 2019

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 6). 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, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding, pension and OPEB reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Note 12 and Note 13.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension and OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance year 2020 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Note 12 and Note 13).

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 portfolio of the City was limited to STAR Ohio and United States Treasury / Agency debt securities, and Negotiable CDs.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2019, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable 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. Interest revenue credited to the General Fund during 2019 amounted to \$341,413, which includes \$115,804 assigned from other funds.

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

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.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2019 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 acquisition 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.

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.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

I. **Compensated Absences** (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future (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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

K. **Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB 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/OPEB systems report investments at fair value.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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.

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

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

M. **Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. 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. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items during 2019.

P. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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.

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.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

Q. **Budgetary Data** (Continued)

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.

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on the beginning net position/fund balance.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (Continued)

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statements information for certain component units. The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This objective of this Statement is to enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 95, *Postponement of the Effect Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The City has postponed the implementation of GASB Statement No. 84, *Fiduciary Activities*.

The City recorded a restatement of capital assets to correct the reported value of land assets held by the City. This restatement had the following effect on net position as reported December 31, 2018:

	<u>Governmental Activities</u>
Net Position December 31, 2018	\$ 3,804,627
Adjustments:	
Capital Asset Restatement	<u>(2,240,363)</u>
Restated Net Position December 31, 2018	<u>\$ 1,564,264</u>

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 4: **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); and
- f. Advances in and advances out are operating transaction (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	\$ 631,505
Increase (Decrease) Due to:	
Revenue Accruals	182,299
Expenditure Accruals	(45,232)
Funds with Separate Legally Adopted Budgets	(102,278)
Net Impact of Encumbrances	(265,178)
Budgetary Basis	\$ 401,116

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 5: 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.

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, and local governments and municipalities;
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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 5: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

6. The State Treasurer’s investment pool (STAR Ohio and STAR Plus program).

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 Director of Finance 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, 2019, 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, 2019, the carrying amount of the City’s deposits was \$5,902,481 (which includes \$85,276 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, 2019, \$967,988 of the City’s bank balance was covered by federal depository insurance, \$4,784,032 was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the City’s name, and \$198,759 was uninsured and uncollateralized. One of the City’s financial institutions was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City’s policy is to place deposits with major local banks approved by City Council. Protection of the City’s deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 5: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

1. Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or
2. Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. The City's financial institutions had enrolled in OPCS as of December 31, 2019. One of the City's financial institutions was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System.

C. Investments

The City has a formal investment policy. STAR Ohio is measured at net asset value per share, while all other investments are measured at fair value. The City has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The chart on the following page identifies the City's recurring fair value measurements as of December 31, 2019. The City's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs). At December 31, 2019, fair value was \$34,208 above net cost.

D. Interest Rate Risk

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 5: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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’s investments in negotiable certificates of deposit were fully insured by federal depository insurance. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio to maintain the highest rating provided by at least one nationally recognized standard rating service.

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. Investment 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.

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:

	Measurement Value	Credit Rating (*)	Level Input	Investment Maturities (in Years)	
				<1	1-3
<u>Investment Type:</u>					
Star Ohio	\$ 2,023,333	AAAm	N/A	\$ 2,023,333	\$ -
Certificate of Deposit	4,184,807	N/A	2	2,942,811	1,241,996
U.S. Treasury	4,498,369	Aaa/AA+	2	4,498,369	-
U.S. Agencies Securities	2,725,246	Aaa/AA+	2	2,175,358	549,888
Total Investments	13,431,755			<u>\$ 11,639,871</u>	<u>\$ 1,791,884</u>
Carrying Amount of Deposits	5,902,481				
Petty Cash	1,750				
Total	<u>\$ 19,335,986</u>				

* Credit Ratings were obtained from Moody’s and Standard & Poor’s, respectively, for all investments except STAR Ohio (credit rating obtained from Standard & Poor’s).

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2019, 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 2019 for real and public property taxes represents collections of 2018 taxes. Property tax payments received during 2019 for tangible personal property (other than public utility property) are for 2019 taxes.

Real property taxes are levied after October 1, 2019 on the assessed value as of January 1, 2019, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2019 real property taxes are collected in and intended to finance 2020 operations.

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. 2019 public utility property taxes which became a lien at December 31, 2018 are levied after October 1, 2019, and are collected in 2020 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2019 was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2018 property tax receipts were based are as follows:

Real Property	\$ 558,084,390
Public Utility Tangible Property	<u>10,203,350</u>
Total	<u>\$ 568,287,740</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.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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, 2019, 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 2019 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.

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, 2019, 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.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

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 are \$2,627. At December 31, 2019, the amount of delinquent special assessments was \$2,627.

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.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Local Government	\$ 253,763
Gasoline/Motor Vehicle License/Permissive Taxes	387,124
Homestead and Rollback Reimbursement	240,888
Other Grants	37,105
Total Governmental Activities	<u>\$ 918,880</u>

NOTE 7: **INTERFUND TRANSACTIONS**

A. **Interfund Transfers**

As of December 31, 2019, interfund transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 2,265,000
Nonmajor Governmental Funds	2,265,000	-
Total	<u>\$ 2,265,000</u>	<u>\$ 2,265,000</u>

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 7: INTERFUND TRANSACTIONS (Continued)

A. Interfund Transfers (Continued)

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.

B. Interfund Receivable and Payables

As of December 31, 2019, interfund receivables and payables were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 215,000	\$ -
Nonmajor Governmental Funds	-	215,000
Total	<u>\$ 215,000</u>	<u>\$ 215,000</u>

Interfund receivable and payables were used to provide the initial cash for the purchase of equipment to be funded by a Bond Anticipation Note at a later date. The above interfund receivable and payable was eliminated on the government-wide statement of net position because it was between governmental funds.

NOTE 8: ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balances at December 31, 2019, included a deficit in the Road Improvement Fund of \$312,320. The deficit in the Road Improvement Fund is a result of adjustments for accrued liabilities. The General Fund is liable for any deficits in this fund and will provide transfers when cash is required, not when accruals occur.

B. Compliance

Contrary to Section 5705.41(B) of the Ohio Revised Code, the General Fund had expenditures plus encumbrances in excess of appropriations as follows:

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund			
Community Environment	\$ 862,684	\$ 864,910	\$ (2,226)

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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	Road Improvements	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$ 96,074	\$ -	\$ -	\$ 96,074
Materials and Supplies Inventory	86,359	-	59,659	146,018
<i>Total Nonspendable</i>	<u>182,433</u>	<u>-</u>	<u>59,659</u>	<u>242,092</u>
<i>Restricted for</i>				
Police Pension	-	-	17,899	17,899
Fire Pension	-	-	17,893	17,893
Law Enforcement Trust - State	-	-	23,159	23,159
Law Enforcement Trust - Federal	-	-	13,211	13,211
Juvenile Diversion Program	-	-	15,866	15,866
D.A.R.E. Trust	-	-	9,405	9,405
Streets and Highways	-	-	677,971	677,971
Road Improvements	-	-	169,543	169,543
Cedar Road Water Main Ext.	-	-	13,497	13,497
Sidewalk Repairs	-	-	141,230	141,230
G.O. Debt Retirement	-	-	681,608	681,608
Other Purposes	-	-	388	388
<i>Total Restricted</i>	<u>-</u>	<u>-</u>	<u>1,781,670</u>	<u>1,781,670</u>
<i>Committed to</i>				
Termination Benefits	247,228	-	-	247,228
Property Insurance	1,443	-	-	1,443
Street Lighting	42,873	-	-	42,873
Underground Storage Tanks	11,000	-	-	11,000
Summer Day Camp	-	-	499,218	499,218
Equipment Replacement	-	-	141,774	141,774
Sanitary Sewer Improvement	-	-	2,272,081	2,272,081
Public Property Improvement	-	-	153,284	153,284
Mayfield Road Corridor	-	-	564,603	564,603
Fire Capital Improvement	-	-	95,014	95,014
Other Purposes	500	-	-	500
<i>Total Committed</i>	<u>303,044</u>	<u>-</u>	<u>3,725,974</u>	<u>4,029,018</u>
<i>Assigned to</i>				
Fiscal Year 2020 Appropriations	2,306,866	-	-	2,306,866
Security of Persons and Property	9,461	-	-	9,461
Leisure Time Activities	2,270	-	-	2,270
Community Environment	1,902	-	-	1,902
Transportation	26,239	-	-	26,239
General Government	173,495	-	-	173,495
<i>Total Assigned</i>	<u>2,520,233</u>	<u>-</u>	<u>-</u>	<u>2,520,233</u>
<i>Unassigned</i>	11,415,986	(312,320)	-	11,103,666
Total Fund Balances	<u>\$ 14,421,696</u>	<u>\$ (312,320)</u>	<u>\$ 5,567,303</u>	<u>\$ 19,676,679</u>

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 10: CAPITAL ASSETS

A summary of changes in capital assets during 2019 follows:

	Restated Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 1,118,226	\$ -	\$ -	\$ 1,118,226
Construction in Progress	512,651	434,990	(18,964)	928,677
Total Capital Assets Not Being Depreciated	<u>1,630,877</u>	<u>434,990</u>	<u>(18,964)</u>	<u>2,046,903</u>
Capital Assets, being depreciated:				
Land Improvements	1,242,738	-	-	1,242,738
Buildings	9,863,931	-	-	9,863,931
Machinery and Equipment	2,880,909	300,249	-	3,181,158
Furniture and Fixtures	872,188	-	-	872,188
Vehicles	4,220,935	1,237,559	(290,857)	5,167,637
Infrastructure				
Roads	44,983,925	-	-	44,983,925
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 Capital Assets Being Depreciated	<u>78,525,552</u>	<u>1,537,808</u>	<u>(290,857)</u>	<u>79,772,503</u>
Less Accumulated Depreciation:				
Land Improvements	(1,150,725)	(14,071)	-	(1,164,796)
Buildings	(4,845,148)	(225,139)	-	(5,070,287)
Machinery and Equipment	(2,342,840)	(93,421)	-	(2,436,261)
Furniture and Fixtures	(788,988)	(14,225)	-	(803,213)
Vehicles	(3,244,392)	(315,509)	290,857	(3,269,044)
Infrastructure				
Roads	(32,428,366)	(1,558,583)	-	(33,986,949)
Water Mains	(618,127)	(28,922)	-	(647,049)
Sanitary Sewers	(4,270,870)	(207,298)	-	(4,478,168)
Storm Sewers	(1,367,874)	(55,530)	-	(1,423,404)
Total Accumulated Depreciation	<u>(51,057,330)</u>	<u>(2,512,698)</u> *	<u>290,857</u>	<u>(53,279,171)</u>
Total Capital Assets, being Depreciated, Net	<u>27,468,222</u>	<u>(974,890)</u>	<u>-</u>	<u>26,493,332</u>
Governmental Activities Capital Assets, Net	<u>\$29,099,099</u>	<u>\$ (539,900)</u>	<u>\$ (18,964)</u>	<u>\$28,540,235</u>

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 10: **CAPITAL ASSETS** (Continued)

*Depreciation expense was charge to governmental functions as follows:

	Other Capital Assets	Infrastructure	Total
Security of Persons and Property	\$ 328,307	\$ -	\$ 328,307
Basic Utilities	87,717	291,750	379,467
Community Environment	21,002	-	21,002
Leisure Time Activities	55,834	-	55,834
Transportation	58,935	1,558,583	1,617,518
General Government	110,570	-	110,570
Total Deprecation Expense	<u>\$ 662,365</u>	<u>\$ 1,850,333</u>	<u>\$ 2,512,698</u>

NOTE 11: **COMPENSATED ABSENCES**

City employees generally earn vacation ranging from two to five weeks based on length of service. Vacation 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**

A. **Net Pension Liability**

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

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

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

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

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

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

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

Group A 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 62 with 60 months of service credit or Age 57 with 25 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of the annual cost-of-living adjustment.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

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

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City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

	State and Local
2019 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2019 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$700,425 for fiscal year ending December 31, 2019. Of this amount, \$55,666 was reported as an intergovernmental payable.

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that 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, 2019

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

C. **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 participating in the DROP program have separate eligibility requirements related to COLA.

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

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

	Police	Firefighters
2019 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2019 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,592,485 for 2019. Of this amount, \$147,481 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2018, 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, 2018 and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.036002%	0.150646%	0.165738%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.036100%</u>	<u>0.152613%</u>	<u>0.166908%</u>	
Change in Proportionate Share	<u>0.000098%</u>	<u>0.001967%</u>	<u>0.001170%</u>	
Proportionate Share of the Net Pension Liability	\$ 9,887,058	\$ 12,457,253	\$ 13,624,103	\$ 35,968,414
Pension Expense	\$ 2,142,818	\$ 1,698,944	\$ 1,916,590	\$ 5,758,352

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Deferred Outflows of Resources				
Differences between expected and actual experience	\$ 455	\$ 511,821	\$ 559,761	\$ 1,072,037
Changes of assumptions	860,690	330,259	361,194	1,552,143
Net difference between projected and actual earnings on pension plan investments	1,341,949	1,534,726	1,678,477	4,555,152
Changes in proportion and differences between City contributions and proportionate share of contributions	13,656	274,944	309,567	598,167
City contributions subsequent to the measurement date	<u>700,425</u>	<u>739,265</u>	<u>853,220</u>	<u>2,292,910</u>
Total Deferred Outflows of Resources	<u>\$ 2,917,175</u>	<u>\$ 3,391,015</u>	<u>\$ 3,762,219</u>	<u>\$ 10,070,409</u>
Deferred Inflows of Resources				
Differences between expected and actual experience	\$ 129,823	\$ 11,631	\$ 12,723	\$ 154,177
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>42,252</u>	<u>231,739</u>	<u>-</u>	<u>273,991</u>
Total Deferred Inflows of Resources	<u>\$ 172,075</u>	<u>\$ 243,370</u>	<u>\$ 12,723</u>	<u>\$ 428,168</u>

\$2,292,910 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, 2020.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

Year Ending December 31:	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
2020	\$ 856,780	\$ 778,239	\$ 909,637	\$ 2,544,656
2021	439,296	442,640	542,602	1,424,538
2022	124,494	486,169	597,985	1,208,648
2023	624,105	670,508	796,597	2,091,210
2024	-	30,824	49,455	80,279
Total	<u>\$ 2,044,675</u>	<u>\$ 2,408,380</u>	<u>\$ 2,896,276</u>	<u>\$ 7,349,331</u>

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

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

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

OPERS manages investments in investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was at a loss of 2.94 percent for 2018.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.79 %
Domestic Equities	19.00	6.21
Real Estate	10.00	4.90
Private Equity	10.00	10.81
International Equities	20.00	7.83
Other investments	18.00	5.50
Total	<u>100.00 %</u>	5.95 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.2 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 14,606,060	\$ 9,887,058	\$ 5,965,525

F. **ACTUARIAL ASSUMPTIONS – OP&F**

OP&F’s total pension liability as of December 31, 2018 is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2018, are presented below:

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple, 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

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

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Mortality rates for active members were based on the RP2014 Total employee and Healthy Annuitant Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale.

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

The most recent experience study was completed January 1, 2017.

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2018 are summarized on the following page:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	0.00 %	1.00 %	0.80 %
Domestic Equity	16.00	5.60	5.50
Non-US Equity	16.00	6.10	5.90
Core Fixed Income *	23.00	2.20	2.60
U.S. Inflation Linked Bonds *	17.00	1.30	2.30
High Yield Fixed Income	7.00	4.20	4.80
Real Estate	12.00	5.70	6.10
Private Markets	8.00	8.40	8.40
Master Limited Partnerships	8.00	6.70	6.40
Private Credit	5.00	8.30	7.50
Real Assets	8.00	7.00	7.00
Total	<u>120.00 %</u>		

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

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

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

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

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 34,282,146	\$ 26,081,356	\$ 19,228,413

NOTE 13: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability**

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

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

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. During 2019, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$54 for 2019.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

The OP&F Board of Trustees is also 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.

On January 1, 2019, OP&F changed its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

The City's contractually required contribution to OP&F was \$37,608 for 2019.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2018, and was determined by rolling forward the total OPEB liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.033630%	0.316384%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.033681%</u>	<u>0.319521%</u>	
Change in Proportionate Share	<u>0.000051%</u>	<u>0.003137%</u>	
Proportionate Share of the Net OPEB			
Liability	\$ 4,391,207	\$ 2,909,729	\$ 7,300,936
OPEB Expense	\$ 374,340	\$ (14,316,561)	\$ (13,942,221)

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 1,487	\$ -	\$ 1,487
Changes of assumptions	141,579	1,508,264	1,649,843
Net difference between projected and actual earnings on pension plan investments	201,311	98,497	299,808
Changes in proportion and differences between City contributions and proportionate share of contributions	-	139,607	139,607
City contributions subsequent to the measurement date	54	37,608	37,662
Total Deferred Outflows of Resources	<u>\$ 344,431</u>	<u>\$ 1,783,976</u>	<u>\$ 2,128,407</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 11,915	\$ 77,958	\$ 89,873
Changes of assumptions	-	805,551	805,551
Changes in proportion and differences between City contributions and proportionate share of contributions	35,054	86,098	121,152
Total Deferred Inflows of Resources	<u>\$ 46,969</u>	<u>\$ 969,607</u>	<u>\$ 1,016,576</u>

\$37,662 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2020	\$125,904	\$137,456	\$263,360
2021	36,951	137,456	174,407
2022	33,139	137,458	170,597
2023	101,414	167,247	268,661
2024	-	120,280	120,280
Thereafter	-	76,864	76,864
Total	<u>\$297,408</u>	<u>\$776,761</u>	<u>\$1,074,169</u>

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions - OPERS**

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.96 percent
Prior Measurement date	3.85 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate	3.71 percent
Health Care Cost Trend Rate	10.0 percent, initial 3.25 percent, ultimate in 2029
Actuarial Cost Method	Individual Entry Age

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

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

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio.

The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 25.60 percent for 2018.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trust	6.00	5.98
International Equities	22.00	7.83
Other investments	17.00	5.57
Total	<u>100.00 %</u>	5.16 %

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Discount Rate A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 3.71 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate.

Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
City's proportionate share of the net OPEB liability	\$ 5,617,991	\$ 4,391,207	\$ 3,415,590

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$ 4,220,903	\$ 4,391,207	\$ 4,587,352

F. **Actuarial Assumptions – OP&F**

OP&F's total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	4.66 percent
Prior measurement date	3.24 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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

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

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

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2018, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	0.00 %	1.00 %	0.80 %
Domestic Equity	16.00	5.30	5.50
Non-US Equity	16.00	6.10	5.90
Core Fixed Income *	23.00	2.20	2.60
U.S. Inflation Linked Bonds *	17.00	1.30	2.30
High Yield Fixed Income	7.00	4.20	4.80
Real Estate	12.00	5.70	6.10
Private Markets	8.00	8.40	8.40
Master Limited Partnerships	8.00	6.70	6.40
Private Credit	5.00	8.30	7.50
Real Assets	8.00	7.00	7.00
Total	<u>120.00 %</u>		

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Discount Rate The total OPEB liability was calculated using the discount rate of 4.66 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 4.13 percent at December 31, 2018 and 3.16 percent at December 31, 2017, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 4.66 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66 percent), or one percentage point higher (5.66 percent) than the current rate.

	1% Decrease (3.66%)	Current Discount Rate (4.66%)	1% Increase (5.66%)
City's proportionate share of the net OPEB liability	\$ 3,544,844	\$ 2,909,729	\$ 2,376,605

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

Changes between Measurement Date and Report Date Beginning January 1, 2019 OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend-based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years.

NOTE 14: **SHORT-TERM OBLIGATIONS**

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

	Principal Outstanding 12/31/2018	Additions	Deletions	Principal Outstanding 12/31/2019
<u>Governmental Activities</u>				
<u>Bond Anticipation Notes</u>				
Vehicle Acquisition				
Anticipation Notes, Series 2018, 705,000, 2.75%	\$ 705,000	\$ -	\$ (705,000)	\$ -
Unamortized Note Premium	248	-	(248)	-
Various Purpose Street Improvement				
Anticipation Notes, Series 2018, 4,000,000, 2.50%	400,000	-	(400,000)	-
Unamortized Note Premium	729	-	(729)	-
Various Purpose Street Improvement				
Anticipation Notes, Series 2019, \$3,600,000, 2.75%	-	1,100,000	-	1,100,000
Unamortized Note Premium	-	12,419	(9,314)	3,105
<i>Total Bond Anticipation Notes</i>	<u>\$ 1,105,977</u>	<u>\$ 1,112,419</u>	<u>\$ (1,115,291)</u>	<u>\$ 1,103,105</u>

On April 2, 2019, the City issued \$3,600,000 in Various Purpose Street Improvement Notes for an interest rate of 3.00 percent, maturing on April 2, 2020. On April 1, 2020 the City paid down \$1,100,000 of the Note and rolled forward a \$2,500,000 Various Purpose Street Improvement Notes for an interest rate of 2.50 percent, maturing on April 1, 2021.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 15: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City for the year ended December 31, 2019, are as follows:

	Principal Outstanding 12/31/2018	Additions	Deletions	Principal Outstanding 12/31/2019	Amounts Due in One Year
<u>Governmental Activities</u>					
<u>Bond Anticipation Notes</u>					
Various Purpose Street Improvement Anticipation Notes, Series 2018, \$4,000,000, 2.50%	\$ 3,600,000	\$ -	\$ (3,600,000)	\$ -	\$ -
Unamortized Note Premium	6,559	-	(6,559)	-	-
Various Purpose Street Improvement Anticipation Notes, Series 2019, \$3,600,000, 2.75%	-	2,500,000	-	2,500,000	2,500,000
Unamortized Note Premium	-	28,225	(21,169)	7,056	-
Total Bond Anticipation Notes	3,606,559	2,528,225	(3,627,728)	2,507,056	2,500,000
<u>Ohio Public Works Commission</u>					
2013 \$923,156 I-271/Mayfield Road Design, 0%	669,288	-	(46,158)	623,130	46,158
2007 \$805,000 I-271/Mayfield Road Construction, 0%	362,250	-	(65,847)	296,403	37,050
Total Ohio Public Works Commission	1,031,538	-	(112,005)	919,533	83,208
<u>Other Long-term Liabilities</u>					
Net Pension Liability					
OPERS	5,648,016	4,239,042	-	9,887,058	-
OP&F	19,417,898	6,663,458	-	26,081,356	-
Total Net Pension Liability	25,065,914	10,902,500	-	35,968,414	-
Net OPEB Liability					
OPERS	3,651,970	739,237	-	4,391,207	-
OP&F	17,925,858	-	(15,016,129)	2,909,729	-
Total OPEB Liability	21,577,828	739,237	(15,016,129)	7,300,936	-
Compensated Absences	3,125,784	724,546	(892,832)	2,957,498	928,108
Total Other Long-term Liabilities	49,769,526	12,366,283	(15,908,961)	46,226,848	928,108
Total Governmental Long-Term Liabilities	\$ 54,407,623	\$ 14,894,508	\$ (19,648,694)	\$ 49,653,437	\$ 3,511,316

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. 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.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 15: LONG-TERM OBLIGATIONS (Continued)

See Note 12 for further information regarding Net Pension Liability. Also see Note 13 for further information regarding Net OPEB Liability.

Principal and Interest Requirements

A summary of the City’s future long-term debt requirements as of December 31, 2019 follows:

Year	Total OPWC Principal
2020	\$ 83,208
2021	83,208
2022	83,208
2023	83,208
2024	83,208
2025-2029	341,943
2030-2033	161,550
	\$ 919,533

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, 2019, were an overall debt margin of \$58,988,605 and an unvoted debt margin of \$30,574,218.

NOTE 16: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

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

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 16: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION (Continued)

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool after a deductible of \$7,000 is met. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2019, the City paid \$190,382 in premiums from the General Fund, which represents 8.04 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights 44143.

NOTE 17: 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. Beginning in 2019, the HSA option was discontinued. All covered employees are enrolled in the HRA plan. For 2019, the employee portion was \$81.18 and \$154.33 for single and family coverage, respectively. In addition, the City fully funded the deductible for the HRA – \$2,800 for a single contract, and \$5,600 for a family contract.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 17: **RISK MANAGEMENT** (Continued)

Medical and prescription, dental, and vision benefits are provided through Medical Mutual, Sunlife Dental, and VBA Vision, 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 is \$707.93 for single coverage and \$1,769.83 for family coverage. The monthly premium for dental benefits is \$27.02 for single coverage and \$84.85 for family coverage. The monthly coverage for vision benefits is \$3.50 for single coverage and \$9.10 for family coverage.

The City participates in the Ohio Bureau of Workers' Compensation (BWC) group rating plan. The City pays BWC a premium based on a rate per \$100 of salaries. The rate is based on accident history of employers participating in the group and administrative costs.

NOTE 18: **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 19: **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 2019, all participating municipalities contributed a total of \$125,000.

The Council adopts a budget for ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2019, the City contributed \$25,000, which represents 20.0 percent of the total contributions.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS (Continued)

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the Cemetery. Each of the communities contributes a nominal fee for the maintenance of the Cemetery. The Village of Mayfield assumes the daily accounting and reporting of the Cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6622 Wilson Mills Road, Mayfield Village, Ohio 44143.

Suburban Water Regional Council of Governments

The City is a member of the Suburban Water Regional Council of Governments (SWRCOG). The organization is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. SWRCOG was formed to represent municipal corporation members in communications, understandings, uniform approaches and exchange of information between the council and the City of Cleveland with respect to water service, system and local operations, rates, maintenance and capital improvements. There are no dues or fees assessed against the members of the council. SWRCOG consists of 70 communities.

SWRCOG's Board is comprised of 18 trustees elected from nine regional groups. The Board oversees and manages the operation of SWRCOG. The degree of control exercised by each community is limited to its representation in SWRCOG and on the Board. The City did not make any payments to SWRCOG during 2019. Financial information can be obtained by contacting the Office of the Executive Secretary of the Cuyahoga County Mayors and City Managers Association, 10107 Brecksville Road, Brecksville, Ohio 44141.

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. The Partnership was formed between the cities of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village, and South Euclid, 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 2019, the City contributed \$279,212, which represents 27.68 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS (Continued)

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 134 members in 174 communities in 10 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

NOTE 20: INSURANCE PURCHASING POOL

Ohio Government Benefit Cooperative

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

Participants pay an initial \$500 membership fee to OGBC. OGBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OGBC's third party administrator. Medical Mutual is the Administrator of the OGBC. During 2019, the City elected to participate in the joint insurance program for medical, prescription drug, and vision coverage. Financial information can be obtained by contacting Eric Dean, Fiscal Officer, 14600 State Road, North Royalton, Ohio 44133.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 21: 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 2019, the City disbursed \$188,826 to the School District as a result of the revenue sharing agreements.

NOTE 22: 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, 2019, the City's commitments for encumbrances in the governmental funds were as follows:

	Encumbrances Outstanding
Major Fund:	
General	\$ 265,178
Road Improvement	150,382
Nonmajor Funds:	
Special Revenue Funds	190,978
Capital Projects Funds	568,058
Total	\$ 1,174,596

NOTE 23: TAX ABATEMENT

The City of Mayfield Heights established a Community Reinvestment Area pursuant to Ohio Revised Code Chapter 3735.65 to 3735.70 in 1993 in order to attract and encourage economic development in a section of the city zoned mainly for corporate office construction. Improvements within the CRA designated area are granted abatement up to 100% on additional property taxes resulting from the increase in assessed valuation for a period up to 15 years. Currently, there are four agreements in place within the CRA, each of which are 15 years in length. Expiration of these agreements are: one in tax collection year 2022, one in tax collection year 2023, and two in tax collection year 2024.

For the year ending December 31, 2019, the total amount of property taxes abated applicable to the City of Mayfield Heights was \$95,177. The City of Mayfield Heights has agreements in place with the Mayfield City School District to reimburse from the proceeds of the municipal income tax collected from businesses receiving tax abatement varying amounts.

City of Mayfield Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2019

NOTE 23: **TAX ABATEMENT** (Continued)

The City of Mayfield Heights, pursuant to Ohio Revised Code Chapter 5709.61 to 5709.66, designated an Enterprise Zone in the city in 1993. There are currently no active agreements in effect in the zone.

The City of Mayfield Heights established a Job Retention and Creation Grant Program in 2013 with the goal to provide incentives to businesses to retain, create, and expand employment opportunities in the city. Depending on the amount of new annual payroll created and the income tax generated, a business is eligible to receive a grant from the city for a period ranging from two to five years. The grant awarded from non-tax revenues can range from 20% to 50% of income tax revenue collected over a twelve-month grant period based on an annual payroll ranging from \$3 million to \$31 million.

For the year ending December 31, 2019, no businesses were awarded grants.

NOTE 24: **SUBSEQUENT EVENTS**

The City rolled over a Various Purpose Street Improvement Notes on April 1, 2020 for the amount of \$2,500,000. The City is expected to rollover the notes in the subsequent years and pay down the principal aggressively.

In April 2020, Mayfield Heights residents voted to increase the City's income tax rate from 1.0% to 1.5%. The tax increase, when considered with the City's increase of the tax credit for income taxes paid to other municipalities from 50% to 100% in 2019, will bring in an estimated \$4 million to \$5 million of additional tax revenue. The funds are earmarked for repairs to local infrastructure, including roads, sidewalks and the City pool.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. As a part a part of the emergency measures, the Governor of the State of Ohio ordered non-essential businesses to close and issued "stay at home" orders in March 2020 which are still ongoing. The income tax deadline in Ohio was also extended from April 15, 2020 to July 15, 2020. As a result, the City expects decreased income tax collections in 2020, decreased local government and other revenues from the State of Ohio, and a delay in receiving net profit and individual income taxes. Management and elected officials plan to closely monitor revenue collections and apply expenditure controls to ensure the continued financial viability of the City; however, the exact financial impact cannot be determined at this time.

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
Last Six Years (1)

Traditional Plan	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.036100%	0.036002%	0.036822%	0.036866%	0.038215%	0.038215%
City's Proportionate Share of the Net Pension Liability	\$ 9,887,058	\$ 5,648,016	\$ 8,361,650	\$ 6,385,657	\$ 4,609,156	\$ 4,505,051
City's Covered Payroll	\$ 4,914,307	\$ 4,767,346	\$ 4,799,058	\$ 4,588,283	\$ 4,700,683	\$ 4,688,308
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	201.19%	118.47%	174.24%	139.17%	98.05%	96.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%

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

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

See accompanying notes to the required supplementary information

City of 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 Six Years (1)

Police	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.152613%	0.150646%	0.155928%	0.151274%	0.148258%	0.148258%
City's Proportionate Share of the Net Pension Liability	\$ 12,457,253	\$ 9,245,807	\$ 9,876,320	\$ 9,731,562	\$ 7,869,703	\$ 7,220,630
City's Covered Payroll	\$ 3,829,242	\$ 3,464,421	\$ 3,724,374	\$ 3,438,179	\$ 3,264,674	\$ 3,112,727
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	325.32%	266.88%	265.18%	283.04%	241.06%	231.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.07%	70.91%	68.36%	66.77%	71.71%	73.00%
Fire	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.166908%	0.165738%	0.162830%	0.157135%	0.150062%	0.150062%
City's Proportionate Share of the Net Pension Liability	\$ 13,624,103	\$ 10,172,091	\$ 10,313,513	\$ 10,108,605	\$ 8,227,905	\$ 7,549,288
City's Covered Payroll	\$ 3,449,464	\$ 2,857,272	\$ 3,189,319	\$ 2,860,668	\$ 2,779,170	\$ 2,706,772
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	394.96%	356.01%	323.38%	353.37%	296.06%	278.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.07%	70.91%	68.36%	66.77%	71.71%	73.00%

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

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

See accompanying notes to the required supplementary information

City of Mayfield Heights, Ohio
Required Supplementary Information
Schedule of City Contributions - Pension
Ohio Public Employees Retirement System
Last Seven Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 700,425	\$ 688,003	\$ 619,755	\$ 575,887	\$ 550,594	\$ 564,082	\$ 609,480
Contributions in Relation to the Contractually Required Contribution	<u>\$ (700,425)</u>	<u>\$ (688,003)</u>	<u>\$ (619,755)</u>	<u>\$ (575,887)</u>	<u>\$ (550,594)</u>	<u>\$ (564,082)</u>	<u>\$ (609,480)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 5,003,036	\$ 4,914,307	\$ 4,767,346	\$ 4,799,058	\$ 4,588,283	\$ 4,700,683	\$ 4,688,308
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

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

See accompanying notes to the required supplementary information

City of Mayfield Heights, Ohio
Required Supplementary Information
Schedule of City Contributions - Pension
Ohio Police and Fire Pension Fund
Last Ten Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Contractually Required Contributions</u>										
Police	\$ 739,265	\$ 727,556	\$ 658,240	\$ 707,631	\$ 653,254	\$ 620,288	\$ 489,632	\$ 389,929	\$ 385,353	\$ 390,422
Fire	\$ 853,220	\$ 810,624	\$ 671,459	\$ 749,490	\$ 672,257	\$ 653,105	\$ 547,580	\$ 454,371	\$ 469,796	\$ 466,259
Total Required Contributions	\$ 1,592,485	\$ 1,538,180	\$ 1,329,699	\$ 1,457,121	\$ 1,325,511	\$ 1,273,393	\$ 1,037,212	\$ 844,300	\$ 855,149	\$ 856,681
Contributions in Relation to the Contractually Required Contribution	\$ (1,592,485)	\$ (1,538,180)	\$ (1,329,699)	\$ (1,457,121)	\$ (1,325,511)	\$ (1,273,393)	\$ (1,037,212)	\$ (844,300)	\$ (855,149)	\$ (856,681)
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll										
Police	\$ 3,890,868	\$ 3,829,242	\$ 3,464,421	\$ 3,724,374	\$ 3,438,179	\$ 3,264,674	\$ 3,112,727	\$ 3,058,267	\$ 3,022,376	\$ 3,062,133
Fire	\$ 3,630,723	\$ 3,449,464	\$ 2,857,272	\$ 3,189,319	\$ 2,860,668	\$ 2,779,170	\$ 2,706,772	\$ 2,634,035	\$ 2,723,455	\$ 2,702,951
<u>Pension Contributions as a Percentage of Covered Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	[1]	17.25%	17.25%	17.25%

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

See accompanying notes to the required supplementary information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.033681%	0.033630%	0.034520%
City's Proportionate Share of the Net OPEB Liability	\$ 4,391,207	\$ 3,651,970	\$ 3,486,637
City's Covered Payroll	\$ 4,914,307	\$ 4,763,764	\$ 4,770,436
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	89.36%	76.66%	73.09%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.33%	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.319521%	0.316384%	0.318760%
City's Proportionate Share of the Net OPEB Liability	\$ 2,909,729	\$ 17,925,858	\$ 15,130,820
City's Covered Payroll	\$ 7,278,706	\$ 6,321,693	\$ 6,913,693
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	39.98%	283.56%	218.85%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.57%	14.13%	15.96%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

City of Mayfield Heights, Ohio
Required Supplementary Information
Schedule of City Contributions - OPEB
Ohio Public Employees Retirement System
Last Five Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 54	\$ 146	\$ 47,738	\$ 95,573	\$ 91,844
Contributions in Relation to the Contractually Required Contribution	<u>(54)</u>	<u>(146)</u>	<u>(47,738)</u>	<u>(95,573)</u>	<u>(91,844)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 5,013,857	\$ 4,914,307	\$ 4,763,764	\$ 4,770,436	\$ 4,603,171
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	1.00%	2.00%	2.00%

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

See accompanying notes to the required supplementary information

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 37,608	\$ 36,393	\$ 31,608	\$ 32,882	\$ 31,422	\$ 30,120	\$ 207,148	\$ 384,231	\$ 390,527	\$ 389,143
Contributions in Relation to the Contractually Required Contribution	(37,608)	(36,393)	(31,608)	(32,882)	(31,422)	(30,120)	(207,148)	(384,231)	(390,527)	(389,143)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 7,521,591	\$ 7,278,706	\$ 6,321,693	\$ 6,913,693	\$ 6,298,847	\$ 6,043,844	\$ 5,819,499	\$ 5,692,302	\$ 5,745,831	\$ 5,765,084
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	3.62%	6.75%	6.75%	6.75%

See accompanying notes to the required supplementary information

City of Mayfield Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables. For 2019, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 7.50% to 7.20%.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018-2019.

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

City of Mayfield Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2019.

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

Net OPEB Liability

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

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

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

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

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2020, wherein we noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City, also, the City restated beginning net position due to a change in the valuation of capital assets. Our opinion is not modified with respect to these matters.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered a significant deficiency as item **2019-001**.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of This Report

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



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

June 23, 2020

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019**

Finding No. 2019-001 – Significant Deficiency – Capital Assets

Condition/Criteria

During our testing of capital assets, we noted that the value reported for land on the prior year audit report was not supported by the capital asset listing for land. The value reported on the 2018 financial statements was \$3,357,589, which was \$2,240,363 overstated from the supporting value of \$1,118,226.

Cause/Effect

During the first year of an audit engagement, prior year balances are tested to determine accuracy of the account balance. The results of our testing showed the reported value for land was overstated. The land value has been carried on the City's financial statements at the stated value since the implementation of GASB Statement No. 34, which changed the disclosure of capital assets on the financial statements.

Recommendation

We recommend that the City review its capital asset listing to verify that all values are recorded at cost on the financial statements. We also recommend that the City ensure that all capital asset additions are included in the proper categories at cost value.

City's Response

The valuation for land has been carried forward since 2003, with only additions and deletions changing the balance. Audit workpapers for the time period in question are no longer available and additional research could not determine the valuation detail from 2003. The City will verify capital asset balances moving forward and will ascertain that all additions and deletions are properly classified.

**CITY OF MAYFIELD HEIGHTS
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2019**

The prior issued audit report, as of December 31, 2018, included a material weakness.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2018-001	Payroll Timesheet Approval	Corrected	None

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

OHIO AUDITOR OF STATE KEITH FABER



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
JULY 23, 2020**