



Dave Yost • Auditor of State



**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2016**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of Richmond Heights  
Cuyahoga County  
26789 Highland Road  
Richmond Heights, Ohio 44143

To the City Council:

### ***Report on the Financial Statements***

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

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

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

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

**Other Matter**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 26, 2017

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The discussion and analysis of the City of Richmond Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2016 are as follows:

- In total, net position in governmental activities increased by \$840,006 during 2016. This represents a 5 percent increase from 2015.
- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$17,895,024.
- City income tax revenue totaled \$5,735,779.

**Using This Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Richmond Heights as a financial whole or as an entire operating entity. The statements provide a detailed look at the City's specific financial conditions.

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.

**Reporting the City of Richmond Heights as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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These two statements report the City's net position and the changes in that net position. The change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets also need to be evaluated.

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 (Assets and Deferred Outflows of Resources minus Liabilities and Deferred Inflows of Resources)
- Program Expenses and Revenues
- General Revenues
- Net Position Beginning of Year and Year's End

**Reporting the City of Richmond Heights' Most Significant Funds**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City of Richmond Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and fiduciary funds. The presentation of the City's major funds begins on page 15. Fund financial statements provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Richmond Heights, the major funds are the General Fund, Fire Service Special Revenue Fund, and the Bond Retirement Debt Service Fund.

**Governmental Funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. All City activities are reported in the governmental funds focusing on how money flows into and out of those funds and the balances left at year-end available for future spending. The City's funds are reported using the modified accrual accounting method. The modified accrual method measures cash and all other financial assets expected to be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps determine the level of financial resources that can be spent in the near future on residential services. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.



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*Fiduciary Funds* Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds use the accrual basis of accounting.

**The City of Richmond Heights as a Whole**

Recall that the Statement of Net Position pictures the City as a whole. Table 1 provides a summary of the City's net position for 2016 compared to 2015.

**Table 1 - Net Position**

	Governmental Activities	
	2016	2015
<b><u>Assets</u></b>		
Current and Other Assets	\$ 19,121,641	\$ 18,472,162
Capital Assets, Net	20,685,696	21,118,294
<b>Total Assets</b>	<b>39,807,337</b>	<b>39,590,456</b>
<b><u>Deferred Outflows of Resources</u></b>		
Pension	3,501,895	1,242,068
<b><u>Liabilities</u></b>		
Current and Other Liabilities	537,998	505,461
Long-term Liabilities	21,717,824	20,070,920
<b>Total Liabilities</b>	<b>22,255,822</b>	<b>20,576,381</b>
<b><u>Deferred Inflows of Resources</u></b>		
Property Taxes	3,079,945	3,172,505
Deferred Charges on Refunding	2,898	3,623
Pension	75,543	24,997
<b>Total Deferred Inflows of Resources</b>	<b>3,158,386</b>	<b>3,201,125</b>
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	11,944,262	10,909,439
Restricted	8,457,629	8,099,618
Unrestricted	(2,506,867)	(1,954,039)
<b>Total Net Position</b>	<b>\$ 17,895,024</b>	<b>\$ 17,055,018</b>

Net position may serve as a useful indicator of a government's financial position over time. In the case of the City of Richmond Heights, assets exceeded liabilities and deferred inflows of resources by \$17,895,024 at year end. The City's net investment in capital assets accounts for 67 percent of total net position. Capital assets include land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

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

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

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

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

Table 2 shows the changes in net position for the year ended December 31, 2016 compared to 2015.

	<b>Table 2 - Change in Net Position</b>	
	Governmental Activities	
	2016	2015
<b><u>Revenues</u></b>		
Program Revenues:		
Charges for Services	\$ 1,436,122	\$ 1,452,293
Operating Grants and Contributions	574,548	778,787
Capital Grants and Contributions	233,920	2,613,650
General Revenues:		
Property Taxes	3,169,417	3,357,435
Income Taxes	5,735,779	6,769,163
Other Taxes	81,620	81,417
Grants and Entitlements	625,233	684,035
Gain on Sale of Capital Assets	27,144	4,003
Miscellaneous	135,941	160,382
<b>Total Revenues</b>	<b>12,019,724</b>	<b>15,901,165</b>
<b><u>Program Expenses</u></b>		
Security of Persons and Property	6,542,671	5,915,204
Leisure Time Activities	195,321	179,950
Community Environment	653,275	361,127
Transportation	1,823,843	2,012,565
General Government	1,704,509	1,740,005
Interest and Fiscal Charges	260,099	342,358
<b>Total Program Expenses</b>	<b>11,179,718</b>	<b>10,551,209</b>
<i>Change in Net Position</i>	840,006	5,349,956
Net Position, Beginning of Year	17,055,018	11,705,062
<b>Net Position, End of Year</b>	<b>\$ 17,895,024</b>	<b>\$ 17,055,018</b>

In 2015, the majority of capital grant revenue was contributed funds from the County for the completed Highland Road project. To capitalize the total cost of the project, the City recorded a contribution for the County's share of costs, totaling \$2,466,851. Without considering this contribution, total revenue is 10.5% less in 2016 than it was in 2015, mostly due to reduced income tax revenue.

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The reduction of income tax revenue in 2016 was largely due to the closing of local businesses. In 2015, the City received a one-time income tax windfall from a top paying corporation. The windfall was the result of a merger which included substantial payments to key employees and top executives. This corporation then moved its operation out of the City in 2016, resulting in the loss of about 80 employees. Also in 2016, the largest retailer in the City closed, resulting in the loss of about 105 employees. The closing of these two companies has resulted in reduced net profits and income tax collections for 2016.

Residents passed a ballot issue in November 2016 to limit the City's municipal income tax credit to 1.25% beginning in 2017. Through 2016, Richmond Heights had a 2.25% tax rate with a 100% credit for taxes paid to other municipalities. This change will offset both reduced income tax collections (due to the closing of local businesses) and recent reductions in other revenue sources, such as the State's elimination of the estate tax in 2013, the phase-out of the CAT tax reimbursement (tax on business inventory, machinery and equipment) and cuts in State Local Government Funds (sharing of State sales tax).

**Governmental Activities**

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate increased from 2 percent to 2.25 percent on gross income effective July 1, 2013. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax, the credit limit being 2.25 percent during 2016. The revenues generated from this tax amounted to \$5,735,779.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has 8.7 mills for the fire service. The fire service levy provides for a portion of the operating expenditures of the fire service, and the remainder of funding comes from the General Fund.

Security of persons and property and transportation are two major activities of the City, generating 75 percent of the governmental expenses. Currently there are 20 full-time sworn officers in the police department. During 2016, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

The fire service consists of 19 full-time and several part-time fire fighters. All of these fire fighters are fully trained paramedics. Training plays a crucial role in the day-to-day operation of the fire service. The department handled 2,043 calls for assistance, of which approximately 1,583 were for EMS and the remainder for fire and fire related incidents.

In 2016, The City engaged in Street and Land Improvement projects, consisting of minor repair and resurfacing of various streets.

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**The City's Funds**

As of the end of the year, the City's governmental funds reported combined ending fund balance of \$9,361,259. \$4,922,542 of the ending combined fund balance for 2016 constitutes assigned and unassigned fund balance combined, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, restricted, or committed to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

Information about the City's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues (plus other financing sources) of \$15,988,025 and total expenditures (plus other financing uses) of \$14,328,633. The General Fund reflected an increase of \$1,072,841, increasing the beginning fund balance of \$4,816,380 to \$5,889,221.

**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 legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after discussions at regularly held council meetings, which are open to the public; the budget is adopted by City Council. Council must approve legislation for any revisions in the budget that alter totals. The finance department closely monitors compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

There was a decrease in actual expenditures made compared to the final budget. The City continues to be able to provide the services that the City residents expect while controlling the costs of providing those services.

**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities	
	2016	2015
Land	\$ 2,900,846	\$ 2,864,847
Land Improvements	308,030	323,922
Buildings	8,070,928	8,437,194
Machinery and Equipment	336,088	312,849
Vehicles	695,937	471,720
Infrastructure	8,373,867	8,707,762
<b>Total Capital Assets, Net</b>	<b>\$ 20,685,696</b>	<b>\$ 21,118,294</b>

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The City's plan is to maintain its assets, including infrastructure, in excellent condition. Purchases of vehicles such as fire trucks are planned for well in advance by the respective department heads. Vehicles are maintained and inspected to ensure peak performance for the maximum time frame. The police vehicle replacement goal is to replace two or three vehicles each year. In 2016, the City purchased one unmarked and one marked police vehicle. In 2017, the capital improvement fund has an appropriation for the purchase of two police vehicles. The ambulance billing fund is available for purchasing EMS/Fire vehicles. One ambulance was purchased in 2014, with the next scheduled replacement planned in 2017. In 2016, a fire chief vehicle was purchased. The next major purchase scheduled is for a fire truck in 2020.

With regard to infrastructure, the City's engineering department maintains a comprehensive listing of all the roads, sewer lines and water mains in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are competitively bid to get the best possible pricing from contractors. Related expenditures are paid for out of the Street Improvement Fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. Funds for street repairs are accumulated in the Street Capital Improvement Fund, and funds for maintenance of facilities are accumulated in the Building and Capital Improvement Funds. See Note 12 to the basic financial statements for additional information on the City's capital assets.

**Debt**

As of December 31, 2016, the City of Richmond Heights had the following debt outstanding:

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

	Governmental Activities	
	2016	2015
General Obligation Bonds	\$ 3,379,999	\$ 4,329,999
OWDA Loans	3,519,712	3,956,774
OPWC Loan	501,800	538,971
Intergovernmental Payable	38,347	47,893
Long-Term Note	1,190,000	1,190,000
Police Pension	37,664	38,985
Capital Leases	9,712	18,353
<b>Total Outstanding Debt</b>	<b>\$ 8,677,234</b>	<b>\$ 10,120,975</b>

At December 31, 2016, the City's overall legal debt margin was \$21,600,797. More detailed information about the City's long-term liabilities is presented in Note 18 and Note 19 to the basic financial statements.

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**Current Financial Related Activities**

While maintaining a positive General Fund balance, the City of Richmond Heights continues to cope with financial challenges resulting from the decline in real estate values and overall decline in the economy. In addition, the Auditor of State in its 2015 audit of the City identified a certain deficiency in internal control over financial reporting that is considered to be material weaknesses and other recommendations to management. Management is committed to correcting these deficiencies and providing the residents of the City of Richmond Heights with full disclosure of the financial position of the City. Also, see Note 4 to the basic financial statements for additional information on the City's accountability and compliance. The fund deficits identified in Note 4 are the result of outstanding advances from periods prior to 2009.

All four of the City's collective bargaining agreements with unions expired at the end of 2015. Negotiations were completed in 2017 with three of the unions and contain retroactive wage adjustments. Negotiations with the police dispatch unit are in final negotiations. Changes to the Salary Ordinance for all non-union positions will also take place with the completion of union negotiations.

The Ohio EPA and the Ohio Water Development Authority (ODWA) implemented an interest rate buy-down program. The refinancing of eight loans under the Water Pollution Control Loan Fund (WPCLF) amounts to an interest savings of \$95,963 over the life of these loans. The savings in interest for 2016 was \$22,270.

In conclusion, the implementation of GASB Statement No. 68 requires the reader to perform additional calculations to determine the City's Total Net Position at December 31, 2016 without the implementation of GASB Statement No. 68. This is an important exercise, as the State Pension Systems (OPERS & OP&F) collect, hold and distributes pensions to our employees, not the City of Richmond Heights. These calculations are as follows:

Total Net Position at December 31, 2016 (with GASB 68)	\$ 17,895,024
GASB 68 Calculations:	
Add: Deferred Inflows related to Pension	75,543
Net Pension Liability	12,077,452
Less: Deferred Outflows related to Pension	(3,501,895)
Total Net Position at December 31, 2016 (without GASB 68)	\$ 26,546,124

**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, James Teknipp, City of Richmond Heights, 26789 Highland Road, Richmond Heights, Ohio 44143, telephone (216) 486-2474, or at the City's website [www.richmondheightsohio.org](http://www.richmondheightsohio.org) or email at [finance.director@richmondheightsohio.org](mailto:finance.director@richmondheightsohio.org).

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**CITY OF RICHMOND HEIGHTS  
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STATEMENT OF NET POSITION  
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	Governmental Activities
<b><u>ASSETS</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 8,412,742
Materials and Supplies Inventory	96,813
Accounts Receivable	138,014
Intergovernmental Receivable	522,181
Prepaid Items	86,492
Municipal Income Taxes Receivable	1,791,893
Property and Other Taxes Receivable	3,358,018
Special Assessments Receivable	4,715,488
Nondepreciable Capital Assets	2,900,846
Depreciable Capital Assets	17,784,850
<b>Total Assets</b>	<b>39,807,337</b>
 <b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>	
Pension	3,501,895
<b>Total Deferred Outflows of Resources</b>	<b>3,501,895</b>
 <b><u>LIABILITIES</u></b>	
Accounts Payable	158,725
Accrued Wages and Benefits	188,753
Intergovernmental Payable	117,979
Accrued Interest Payable	72,541
Long-term Liabilities:	
Due within one year	2,878,592
Due in more than one year:	
Net Pension Liability (See Note 13)	12,077,452
Other amounts due in more than one year	6,761,780
<b>Total Liabilities</b>	<b>22,255,822</b>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Property Taxes	3,079,945
Deferral on Refunding	2,898
Pension	75,543
<b>Total Deferred Inflows of Resources</b>	<b>3,158,386</b>
 <b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	11,944,262
Restricted for:	
Debt Services	5,351,492
Capital Projects	626,575
Street Construction, Maintenance and Repairs	890,049
Rescue Squad	1,122,031
Other Purposes	467,482
Unrestricted	(2,506,867)
<b>Total Net Position</b>	<b>\$ 17,895,024</b>

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

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Functions</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary Government:</b>					
Governmental Activities:					
Security of Persons and Property	\$ 6,542,671	\$ 477,525	\$ 87,088	\$ -	\$ (5,978,058)
Leisure Time Activities	195,321	92,232	700	-	(102,389)
Community Environment	653,275	586,803	5,000	233,920	172,448
Transportation	1,823,843	33,239	421,299	-	(1,369,305)
General Government	1,704,509	246,323	60,461	-	(1,397,725)
Interest and Fiscal Charges	260,099	-	-	-	(260,099)
<b>Total Governmental Activities</b>	<b>\$ 11,179,718</b>	<b>\$ 1,436,122</b>	<b>\$ 574,548</b>	<b>\$ 233,920</b>	<b>(8,935,128)</b>

**General Revenues:**

Property Taxes levied for:

General Purposes	897,264
Debt Service Purpose	641,429
Other Purposes	1,630,724

Municipal Income Taxes levied for:

General Purposes	5,735,779
Other Taxes	81,620
Grants & Entitlements not restricted to specific programs	625,233
Gain on Sale of Capital Assets	27,144
All Other Revenues	135,941

Total General Revenues	<u>9,775,134</u>
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Change in Net Position	840,006
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Net Position - Beginning of Year	<u>17,055,018</u>
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<b>Net Position - End of Year</b>	<b><u>\$ 17,895,024</u></b>
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The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	General Fund	Fire Service	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 4,852,183	\$ 211,047	\$ 1,029,486	\$ 2,320,026	\$ 8,412,742
Materials and Supplies Inventory	8,689	7,383	-	80,741	96,813
Accounts Receivable	19,761	-	-	118,253	138,014
Interfund Receivable	66,767	-	-	540,040	606,807
Intergovernmental Receivable	139,454	89,184	65,810	227,733	522,181
Prepaid Items	73,763	1,333	-	11,396	86,492
Municipal Income Taxes Receivable	1,791,893	-	-	-	1,791,893
Property and Other Taxes Receivable	942,996	1,349,067	712,503	353,452	3,358,018
Special Assessments Receivable	419,523	-	4,271,484	24,481	4,715,488
<b>Total Assets</b>	<b>\$ 8,315,029</b>	<b>\$ 1,658,014</b>	<b>\$ 6,079,283</b>	<b>\$ 3,676,122</b>	<b>\$ 19,728,448</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 70,136	\$ 1,674	\$ -	\$ 86,915	\$ 158,725
Accrued Wages and Benefits	119,477	66,343	-	2,933	188,753
Intergovernmental Payable	26,795	205	-	90,979	117,979
Interfund Payable	-	290,000	-	316,807	606,807
<b>Total Liabilities</b>	<b>216,408</b>	<b>358,222</b>	<b>-</b>	<b>497,634</b>	<b>1,072,264</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property Taxes	859,833	1,240,036	655,250	324,826	3,079,945
Unavailable Revenue-Delinquent Property Taxes	75,776	109,031	57,253	28,626	270,686
Unavailable Revenue-Municipal Income Taxes	741,535	-	-	-	741,535
Unavailable Revenue-Special Assessments	419,523	-	4,271,484	24,481	4,715,488
Unavailable Revenue-Other	112,733	89,184	65,810	219,544	487,271
<b>Total Deferred Inflows of Resources</b>	<b>2,209,400</b>	<b>1,438,251</b>	<b>5,049,797</b>	<b>597,477</b>	<b>9,294,925</b>
<b>FUND BALANCES</b>					
Nonspendable	82,452	8,716	-	92,137	183,305
Restricted	-	-	1,029,486	1,514,816	2,544,302
Committed	449,949	-	-	1,261,161	1,711,110
Assigned	1,263,535	-	-	-	1,263,535
Unassigned (Deficits)	4,093,285	(147,175)	-	(287,103)	3,659,007
<b>Total Fund Balances (Deficit)</b>	<b>5,889,221</b>	<b>(138,459)</b>	<b>1,029,486</b>	<b>2,581,011</b>	<b>9,361,259</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 8,315,029</b>	<b>\$ 1,658,014</b>	<b>\$ 6,079,283</b>	<b>\$ 3,676,122</b>	<b>\$ 19,728,448</b>

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

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2016**

<b>Total Governmental Funds Balance</b>	\$	9,361,259
<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.		20,685,696
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds:		
Delinquent Property taxes	\$ 270,686	
Municipal Income taxes	741,535	
Special assessments	4,715,488	
Intergovernmental	426,246	
Charges for services	61,025	
Total		6,214,980
In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due.		(72,541)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	3,501,895	
Deferred Inflows - Pension	(75,543)	
Net Pension Liability	(12,077,452)	
Total		(8,651,100)
Long-term liabilities, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds Payable	(3,379,999)	
Unamortized Premiums	(98,966)	
Deferral on Refunding	(2,898)	
OWDA Loans Payable	(3,519,712)	
OPWC Loan Payable	(501,800)	
Intergovernmental Payable	(38,347)	
Long Term Note Payable	(1,190,000)	
Police Pension Liability	(37,664)	
Capital Lease Payable	(9,712)	
Compensated Absences	(864,172)	
Total		(9,643,270)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>17,895,024</b>

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>General Fund</b>	<b>Fire Service</b>	<b>Bond Retirement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>REVENUES</u></b>					
Property Taxes	\$ 891,204	\$ 1,282,990	\$ 633,752	\$ 336,683	\$ 3,144,629
Municipal Income Taxes	6,374,018	-	-	-	6,374,018
Other Taxes	81,620	-	-	-	81,620
Intergovernmental	284,410	240,335	131,620	510,643	1,167,008
Fees, Licenses and Permits	327,107	-	-	-	327,107
Fines and Forfeitures	106,548	-	-	-	106,548
Rentals	59,358	-	-	103,686	163,044
Charges for Services	13,213	-	-	431,121	444,334
Contributions and Donations	2,361	-	-	58,800	61,161
Special Assessments	379,848	-	491,255	84,979	956,082
All Other Revenues	80,067	17,636	-	38,238	135,941
<b>Total Revenues</b>	<b>8,599,754</b>	<b>1,540,961</b>	<b>1,256,627</b>	<b>1,564,150</b>	<b>12,961,492</b>
<b><u>EXPENDITURES</u></b>					
Security of Persons and Property	2,853,474	1,962,767	-	715,861	5,532,102
Leisure Time Activities	111,376	-	-	63,296	174,672
Community Environment	277,952	-	-	5,136	283,088
Transportation	1,161,660	-	-	492,896	1,654,556
General Government	1,544,944	-	14,589	46,569	1,606,102
Capital Outlay	-	-	-	437,951	437,951
Debt Service:					
Principal Retirement	8,641	-	2,623,779	1,321	2,633,741
Interest and Fiscal Charges	799	-	301,680	1,642	304,121
<b>Total Expenditures</b>	<b>5,958,846</b>	<b>1,962,767</b>	<b>2,940,048</b>	<b>1,764,672</b>	<b>12,626,333</b>
Excess of Revenues Over (Under) Expenditures	2,640,908	(421,806)	(1,683,421)	(200,522)	335,159
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Sale of Capital Assets	134,233	-	-	-	134,233
Long Term Bond Anticipation Notes Issued	-	-	1,190,000	-	1,190,000
Transfers In	-	300,000	655,000	747,300	1,702,300
Transfers Out	(1,702,300)	-	-	-	(1,702,300)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,568,067)</b>	<b>300,000</b>	<b>1,845,000</b>	<b>747,300</b>	<b>1,324,233</b>
Net Change in Fund Balances	1,072,841	(121,806)	161,579	546,778	1,659,392
Fund Balances - Beginning of Year	4,816,380	(16,653)	867,907	2,034,233	7,701,867
<b>Fund Balances - End of Year</b>	<b>\$ 5,889,221</b>	<b>\$ (138,459)</b>	<b>\$ 1,029,486</b>	<b>\$ 2,581,011</b>	<b>\$ 9,361,259</b>

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

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Net Change in Fund Balances-Total Governmental Funds** \$ 1,659,392

*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 outlays in the current period.

Capital Outlay	\$	437,951	
Depreciation		(763,460)	
Total			(325,509)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (107,089)

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

Delinquent Property taxes		24,788	
Municipal Income taxes		(638,239)	
Special assessments		(350,035)	
Intergovernmental		(5,888)	
Charges for services		462	
Total			(968,912)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of Notes. (1,190,000)

Repayment of debt principal and the intergovernmental payable are expenditures in the Governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 2,633,741

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 861,359

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,762,552)

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		(4,447)	
Amortization of bond premiums		24,276	
Amortization of Gain on Refunding		725	
Accrued Interest		19,022	
Total			39,576

**Change in Net Position of Governmental Activities** \$ 840,006

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL –**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,026,843	\$ 891,204	\$ 891,204	\$ -
Municipal Income Taxes	5,906,449	6,129,174	6,129,174	-
Other Taxes	80,698	83,741	83,741	-
Intergovernmental	267,744	277,844	277,840	(4)
Fees, Licenses and Permits	343,405	350,948	356,354	5,406
Fines and Forfeitures	112,946	117,095	117,205	110
Rentals	57,201	59,358	59,358	-
Charges for Services	12,971	12,815	13,460	645
Contributions and Donations	2,275	2,361	2,361	-
Special Assessments	366,045	379,848	379,848	-
All Other Revenues	67,920	66,030	70,481	4,451
<b>Total Revenues</b>	<u>8,244,497</u>	<u>8,370,418</u>	<u>8,381,026</u>	<u>10,608</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons & Property	3,113,715	3,113,715	2,860,840	252,875
Transportation	1,424,928	1,424,928	1,202,172	222,756
Leisure Time Activities	131,760	137,260	109,915	27,345
Community Environment	375,014	375,014	279,552	95,462
General Government	1,895,597	1,905,697	1,559,668	346,029
<b>Total Expenditures</b>	<u>6,941,014</u>	<u>6,956,614</u>	<u>6,012,147</u>	<u>944,467</u>
Excess of Revenues Over (Under) Expenditures	<u>1,303,483</u>	<u>1,413,804</u>	<u>2,368,879</u>	<u>955,075</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Capital Assets	-	137,333	137,333	-
Transfers In	-	130,000	130,000	-
Transfers Out	(1,420,000)	(1,835,300)	(1,835,300)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(1,420,000)</u>	<u>(1,567,967)</u>	<u>(1,567,967)</u>	<u>-</u>
Net Change in Fund Balance	(116,517)	(154,163)	800,912	955,075
Fund Balance - Beginning of Year	3,802,142	3,802,142	3,802,142	-
Prior Year Encumbrances Appropriated	116,889	116,889	116,889	-
Fund Balance - End of Year	<u>\$ 3,802,514</u>	<u>\$ 3,764,868</u>	<u>\$ 4,719,943</u>	<u>\$ 955,075</u>

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
 BUDGET (NON-GAAP BASIS) AND ACTUAL –  
 FIRE SERVICE FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,127,749	\$ 1,281,757	\$ 1,282,990	\$ 1,233
Intergovernmental	217,938	247,700	247,938	238
All Other Revenues	15,502	17,619	17,636	17
<b>Total Revenues</b>	<b>1,361,189</b>	<b>1,547,076</b>	<b>1,548,564</b>	<b>1,488</b>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	2,149,051	2,149,051	1,972,104	176,947
<b>Total Expenditures</b>	<b>2,149,051</b>	<b>2,149,051</b>	<b>1,972,104</b>	<b>176,947</b>
Excess of Revenues Over (Under) Expenditures	(787,862)	(601,975)	(423,540)	178,435
<b><u>Other Financing Sources</u></b>				
Transfers In	115,667	300,000	300,000	-
<b>Total Other Financings Sources</b>	<b>115,667</b>	<b>300,000</b>	<b>300,000</b>	<b>-</b>
Net Change in Fund Balance	(672,195)	(301,975)	(123,540)	178,435
Fund Balance - Beginning of Year	318,102	318,102	318,102	-
Prior Year Encumbrances Appropriated	14,811	14,811	14,811	-
Fund Balance - End of Year	<b>\$ (339,282)</b>	<b>\$ 30,938</b>	<b>\$ 209,373</b>	<b>\$ 178,435</b>

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



**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2016**

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 380,949
<b>Total Assets</b>	<u>\$ 380,949</u>
<b>Liabilities</b>	
Deposits Held and Due to Others	\$ 380,949
<b>Total Liabilities</b>	<u>\$ 380,949</u>

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

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**NOTE 1: DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Richmond Heights (City) is a charter municipal corporation established and operates under the laws of the State of Ohio. The original charter became effective January 1, 1960 and provides for a mayor-council form of government. Elected officials include seven council members and a mayor.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Richmond Heights this includes: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, recycling, and general administrative services.

Component units are legally separate organizations for which the City may be financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City participates in a shared risk pool, an insurance purchasing pool, a jointly governed organization, and a related organization. These organizations are presented in Notes 16, 17, 20, and 21 to the financial statements. These organizations are:

Shared Risk Pool: Northern Ohio Risk Management Association

Insurance Purchasing Pool: Ohio Municipal League

Jointly Governed Organizations: Eastern Suburban Regional Council of Governments, Northeast Ohio Public Energy Council, Suburban Water Regional Council of Governments

Related Organization: Greenwood Farms Historical, Cultural, and Arts Association

**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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

**Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

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

**Basis of Presentation** (Continued)

***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. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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 therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or 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 function is self-financing or draws from the general revenues of the City.

***Fund Financial Statements*** During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**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. The City does not maintain any proprietary funds.

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

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

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

**Fund Accounting** (Continued)

***Governmental Funds*** (continued)

The following are the City's major governmental funds:

**General Fund** - The General Fund accounts for all financial resources except those required 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 of Richmond Heights and/or the general laws of Ohio.

**Fire Service Fund** - The Fire Service Special Revenue Fund accounts for the accumulation of resources for, and the payment of expenditures relating to fire services.

**Bond Retirement Fund** - The Bond Retirement Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

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

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment 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 only has agency 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 pledged by contractors.

**Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Fund Financial Statements*** (continued)

Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-exchange Transactions Revenue*** resulting from exchange transactions, in which each party gives and 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 period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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 tax), fines and forfeitures, grants and entitlements, fees and rentals.

***Deferred Outflows/Inflows of Resources*** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 13.

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

***Deferred Outflows/Inflows of Resources*** (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 until that time. For the City, deferred inflows of resources include deferral on refunding, property taxes, unavailable revenues, and pension. A deferral on refunding results from the difference in the carrying value of the refunding debt and its reacquisition price. The accounting gain is deferred and amortized over the shorter of the life of the refunded or refunding debt. This amount has been recorded as a deferred inflow on the government-wide statement of net position. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. 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, special assessments, intergovernmental revenues, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and are explained in 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.

**Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City had no investments during the year or at year end.

Investment procedures are restricted by the provisions of the Ohio Revised Code.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

**Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
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 (CONTINUED)**

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

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$7,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Governmental and Business-Type Activities Estimated Useful Life</u>
Land Improvements	15 years
Buildings	40 years
Machinery and Equipment	10 years
Vehicles	7 years
Infrastructure	20-80 years

The City is a Phase III Government, as defined by GASB Statement No. 34, therefore the City has elected to record infrastructure as of January 1, 2003.

**Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund balance amounts are eliminated in the Statement of Net Position.



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

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

**Pensions**

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

**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 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 year. Bonds, long-term loans and notes are recognized as a liability on the governmental fund financial statements when due.

**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 properly 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.

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

**Fund Balance** (Continued)

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

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

*Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classification. 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.

**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 government-wide statement of net position reports \$8,457,629 of the restricted component of net position, none of 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 components of net position are available.

**Internal Activity**

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

**Internal Activity** (Continued)

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.

**Bond Premium**

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued.

**Extraordinary and Special Items**

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

**Estimates**

The preparation of the 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.

**Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control is at object level within each department in the General Fund and at the fund level for all other funds. Budgetary modifications may only be made by ordinance of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. 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 final appropriation amounts passed by Council during the year.

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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES**

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

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

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

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

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

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

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

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NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

Fund balances at December 31, 2016, included the following individual fund deficits:

Fund	Amount
<i>Special Revenue Funds</i>	
Fire Service	\$ 138,459
 <i>Capital Project Funds</i>	
Sewer Improvement	287,103
	\$ 425,562

The deficits in the Special Revenue Funds and Capital Project Funds are caused by the recognition of expenditure accruals on the modified accrual basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General and Fire Service funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a part of restricted, committed, or assigned fund balance (GAAP).
4. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Adjustments necessary to convert the results of operations at the end of the year on the GAAP basis to the budget basis are as follows:

	General	Fire Service
GAAP Basis	\$ 1,072,841	\$ (121,806)
Revenue Accruals	(205,671)	7,603
Expenditure Accruals	6,190	(7,663)
Funds with separate legally adopted budgets	(1,449)	-
Encumbrances (Budget Basis) outstanding at year end	(70,999)	(1,674)
Budget Basis	\$ 800,912	\$ (123,540)

**NOTE 6: DEPOSITS AND INVESTMENTS**

The City has chosen to follow State statutes and 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 monies 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 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 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 and 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 issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

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NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment 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.

**Deposits**

*Custodial Credit Risk* Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the City's deposits was \$8,793,691, and the bank balance was \$8,935,471. \$250,000 of the City's bank balance was covered by Federal Depository Insurance and the remaining amount of \$8,685,471 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the City's name.

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NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

**Deposits** (Continued)

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposit being secured.

**Investments**

The City had no investments at December 31, 2016.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2016, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for ambulance services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes and special assessments are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$419,523 in the General Fund, \$4,271,484 in the Bond Retirement Fund and \$24,481 in the Street Improvement Fund.

**Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of the 2015 taxes. Property tax payments received during 2016 for tangible personal property (other than public utility property) are for 2016 taxes.

2015 real property taxes are levied after October 1, 2016 on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.



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NOTE 7: **RECEIVABLES** (Continued)

**Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2016 was \$18.10 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2016 property tax receipts were based are as follows:

Property Category	Assessed Value	Percent
Real Estate	\$235,910,050	98.53 %
Public Utility	3,531,000	1.47
Total	\$239,441,050	100.00 %

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Richmond Heights. The County Fiscal Office periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2016 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified basis the revenue is deferred.

**Income Tax**

The City levies a municipal income tax of 2.25 percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality, not to exceed 2.25 percent of taxable income.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2016, the proceeds were allocated one hundred percent to the General Fund.

**Intergovernmental Receivables**

A summary of the intergovernmental receivables follows:

Revenue Description	Amount
Local Government	\$ 76,479
Homestead and Rollback	220,733
Gasoline tax	162,064
Motor Vehicle License Tax	41,878
CAT tax reimbursement	21,027
Total	\$ 522,181

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (CONTINUED)**

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

**Interfund Transfers**

Interfund transfers for the year ended December 31, 2016 consisted of the following:

Transfers To	Transfers from General
Fire Service	\$ 300,000
Bond Retirement	655,000
Nonmajor Governmental Funds	747,300
Total	\$ 1,702,300

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. A transfer from the General Fund to the Fire Service Fund was to fund its operations. Transfers from the General Fund to the Bond Retirement Fund were to cover debt payments. Transfers between governmental funds are eliminated on the governmental activities' statement of activities.

**Interfund Balances**

Interfund balances for the year ended December 31, 2016 consisted of the following:

	Receivables	Payables
<b>Major Funds</b>		
General	\$ 66,767	\$ -
Fire Service	-	(290,000)
<b>Nonmajor Governmental Funds</b>		
<i>Special Revenue Funds:</i>		
Rescue Squad	290,000	-
<i>Capital Projects Fund:</i>		
Capital Improvement	-	(27,268)
Street Improvement	250,040	-
Sewer Improvement	-	(289,539)
	\$ 606,807	\$ (606,807)

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**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 major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Fire Service	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 73,763	\$ 1,333	\$ -	\$ 11,396	\$ 86,492
Inventories	8,689	7,383	-	80,741	96,813
<i>Total Nonspendable</i>	<u>82,452</u>	<u>8,716</u>	<u>-</u>	<u>92,137</u>	<u>183,305</u>
<i>Restricted for</i>					
Streets and Highways	-	-	-	674,080	674,080
Police Pension	-	-	-	9,961	9,961
Fire Pension	-	-	-	10,648	10,648
Other Law Enforcement	-	-	-	31,983	31,983
Community	-	-	-	173,652	173,652
Recycling	-	-	-	12,398	12,398
Capital	-	-	-	602,094	602,094
Bond Retirement	-	-	1,029,486	-	1,029,486
<i>Total Restricted</i>	<u>-</u>	<u>-</u>	<u>1,029,486</u>	<u>1,514,816</u>	<u>2,544,302</u>
<i>Committed to</i>					
Recreation	-	-	-	46,565	46,565
Rescue Squad	-	-	-	1,050,110	1,050,110
City Beautification	-	-	-	6,393	6,393
Professional Services	-	-	-	124,399	124,399
Zoning	-	-	-	33,694	33,694
Other Purposes	449,949	-	-	-	449,949
<i>Total Committed</i>	<u>449,949</u>	<u>-</u>	<u>-</u>	<u>1,261,161</u>	<u>1,711,110</u>
<i>Assigned to</i>					
Purchases on Order	8,065	-	-	-	8,065
Fiscal Year 2017 Appropriations	1,255,470	-	-	-	1,255,470
<i>Total Assigned</i>	<u>1,263,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,263,535</u>
<i>Unassigned (Deficit)</i>	4,093,285	(147,175)	-	(287,103)	3,659,007
<b>Total Fund Balances</b>	<u><u>\$ 5,889,221</u></u>	<u><u>\$ (138,459)</u></u>	<u><u>\$ 1,029,486</u></u>	<u><u>\$ 2,581,011</u></u>	<u><u>\$ 9,361,259</u></u>

**CITY OF RICHMOND HEIGHTS  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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NOTE 10: **CONTINGENCIES**

**Grants**

For the period January 1, 2016 to December 31, 2016, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**Litigation**

The City is a party to legal proceedings seeking damages. The City's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 11: **COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and local ordinances. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for one third of accumulated unused sick leave, not to exceed a maximum of 960 hours.

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**NOTE 12: CAPITAL ASSETS**

	Balance 12/31/2015	Additions	Disposals	Balance 12/31/2016
<b><u>Governmental Activities</u></b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,864,847	\$ 52,100	\$ (16,101)	\$ 2,900,846
<i>Capital Assets, being depreciated:</i>				
Land Improvements	546,686	-	-	546,686
Buildings	12,575,506	-	(109,949)	12,465,557
Machinery and Equipment	865,755	74,105	-	939,860
Vehicles	2,522,462	311,746	(252,984)	2,581,224
Infrastructures:				
Roads	2,660,211	-	-	2,660,211
Sanitary Sewers	6,284,513	-	-	6,284,513
Water Mains	1,750,830	-	-	1,750,830
Total Capital Assets Being Depreciated	<u>27,205,963</u>	<u>385,851</u>	<u>(362,933)</u>	<u>27,228,881</u>
Less Accumulated Depreciation:				
Land Improvements	(222,764)	(15,892)	-	(238,656)
Buildings	(4,138,312)	(287,927)	31,610	(4,394,629)
Machinery and Equipment	(552,906)	(50,866)	-	(603,772)
Vehicles	(2,050,742)	(74,880)	240,335	(1,885,287)
Infrastructures:				
Roads	(66,505)	(133,011)	-	(199,516)
Sanitary Sewers	(1,567,243)	(157,113)	-	(1,724,356)
Water Mains	(354,044)	(43,771)	-	(397,815)
Total Accumulated Depreciation	<u>(8,952,516)</u>	<u>(763,460)</u>	<u>271,945</u>	<u>(9,444,031)</u>
Total Capital Assets, being Depreciated, Net	<u>18,253,447</u>	<u>(377,609)</u>	<u>(90,988)</u>	<u>17,784,850</u>
<b>Governmental Activities Capital Assets, Net</b>	<u><u>\$ 21,118,294</u></u>	<u><u>\$ (325,509)</u></u>	<u><u>\$ (107,089)</u></u>	<u><u>\$ 20,685,696</u></u>

\*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 52,097
Security of Persons and Property	286,085
Community Environment	336,104
Leisure Time Activities	13,847
Transportation	75,327
<b>Total Depreciation Expense</b>	<u><u>\$ 763,460</u></u>

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NOTE 13: **DEFINED BENEFIT PENSION PLAN**

**Net Pension Liability**

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

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

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

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

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

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

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.

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

**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):

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

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

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

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

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$207,944 for 2016. Of this amount, \$28,280 is reported as an intergovernmental payable.

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

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

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



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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

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

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

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

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

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

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 (CONTINUED)**

NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

**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 \$653,415 for 2016. Of this amount, \$88,113 is reported as an intergovernmental payable.

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

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

	OPERS		OP&F	OP&F	
	Traditional		Police	Fire	Total
	<u>Pension Plan</u>				
Proportion of the Net Pension Liability/Asset					
Prior Measurement Date	0.011797%		0.0622547%	0.0833731%	
Proportion of the Net Pension Liability/Asset					
Current Measurement Date	<u>0.014554%</u>		<u>0.0640633%</u>	<u>0.0844897%</u>	
Change in Proportionate Share	<u>0.002757%</u>		<u>0.0018086%</u>	<u>0.0011166%</u>	
Proportionate Share of the Net Pension					
Liability/(Asset)	\$ 2,520,936	\$ 4,121,234	\$ 5,435,282	\$ 12,077,452	
Pension Expense	\$ 438,300	\$ 495,189	\$ 643,104	\$ 1,576,593	

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

	<u>OPERS</u>	<u>OP&amp;F Police</u>	<u>OP&amp;F Fire</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>				
Net difference between projected and actual earnings on pension plan investments	\$740,999	\$670,777	\$884,655	\$2,296,431
Changes in proportion and differences between City contributions and proportionate share of contributions	219,395	77,105	47,605	344,105
City contributions subsequent to the measurement date	<u>207,944</u>	<u>293,500</u>	<u>359,915</u>	<u>861,359</u>
Total Deferred Outflows of Resources	<u><u>\$1,168,338</u></u>	<u><u>\$1,041,382</u></u>	<u><u>\$1,292,175</u></u>	<u><u>\$3,501,895</u></u>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	<u>\$48,709</u>	<u>\$11,572</u>	<u>\$15,262</u>	<u>\$75,543</u>
Total Deferred Inflows of Resources	<u><u>\$48,709</u></u>	<u><u>\$11,572</u></u>	<u><u>\$15,262</u></u>	<u><u>\$75,543</u></u>

\$861,359 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F Police</u>	<u>OP&amp;F Fire</u>	<u>Total</u>
Year Ending December 31:				
2017	\$263,292	\$189,262	\$239,186	\$691,740
2018	275,141	189,262	239,186	703,589
2019	205,564	189,260	239,187	634,011
2020	167,688	153,501	192,024	513,213
2021	0	12,627	6,232	18,859
Thereafter	<u>0</u>	<u>2,398</u>	<u>1,183</u>	<u>3,581</u>
Total	<u><u>\$911,685</u></u>	<u><u>\$736,310</u></u>	<u><u>\$916,998</u></u>	<u><u>\$2,564,993</u></u>

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

**Actuarial Assumptions - OPERS**

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

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

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

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

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

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

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

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

**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 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

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

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

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$ 4,016,467	\$ 2,520,936	\$ 1,259,503

**Changes Between Measurement Date and Report Date** In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
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 FOR THE YEAR ENDED DECEMBER 31, 2016  
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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

**Actuarial Assumptions – OP&F**

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

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

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

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

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

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
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 (CONTINUED)**

NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

**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, 2015 are summarized below:

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

\* levered 2x

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

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

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 12,603,768	\$ 9,556,516	\$ 6,975,199

NOTE 14: **POST-EMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**

*Plan Description* - 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.

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

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

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



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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

*Funding Policy* - The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.00 percent of earnable salary. 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 2.00 percent during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.00 percent for both plans. 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 to the RMA for participants in the Member-Directed Plan for 2016 was 4.00 percent.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$35,437 \$33,982 and \$32,171, respectively. For 2016, 89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

**Ohio Police and Fire Pension Fund**

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

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

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**CUYAHOGA COUNTY, OHIO**  
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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$8,436 and \$7,517 for the year ended December 31, 2016, \$7,218 and \$7,706 for the year ended December 31, 2015, and \$6,835 and \$7,462 for the year ended December 31, 2014. 84 percent has been contributed for police and 90 percent has been contributed for firefighters for 2016. The full amount has been contributed for 2015 and 2014.

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
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NOTE 15: **RISK MANAGEMENT**

**Property and Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees and natural disasters. In October 1987, the City joined together with neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund (See Note 16). The City pays an annual premium to NORMA for its insurance coverage. 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. This coverage is paid from the General Fund.

There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

**Workers' Compensation**

The City participates in the Ohio Municipal League (OML) public risk pool for workers' compensation. See Note 17 Insurance Purchasing Pool for further information.

**Employee Insurance Benefits**

The City provides medical and prescription drug benefits through Anthem and dental and vision benefits through Assurant Employee Benefits for all full-time employees. Monthly premium payments are made from the General and Fire Service funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits are \$1,388 for family coverage, \$961 for an employee plus one additional person and \$462 for single coverage.

NOTE 16: **SHARED RISK POOL**

The Northern Ohio Risk Management Association (NORMA) 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. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, 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.

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NOTE 16: **SHARED RISK POOL** (Continued)

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989, the City of Maple Heights, whose commencement date is October 1, 1993, and the City of University Heights, whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

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 \$150,000 per occurrence, will come from the self-insurance pool with any excess paid from the stop-loss coverage carried by the pool. The self-insurance pool will pay up to \$1,250,000 per policy year before the aggregate stop-loss coverage takes over. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2016, the City of Richmond Heights paid \$71,848 in premiums from the General Fund, which represents 5.40 percent of total premiums. The City also paid \$32,805 in loss fund contributions. Financial information can be obtained by contacting the board chairman, the Finance Director at the City of Mayfield Heights, 6154 Mayfield Road, Mayfield Heights, Ohio 44124.

NOTE 17: **INSURANCE PURCHASING POOL**

The City participates in the Ohio Municipal League (OML) public risk pool for workers' compensation. The Group Rating Plan is administered by CompManagement, Inc., who acts as the City's third party administrator. 1-888-OHIOCOMP acts as the City's Managed Care Organization (MCO). The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

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**NOTE 18: LONG-TERM OBLIGATIONS**

The original issue date, interest rate, original issuance amount and maturity date for each of the City's long-term obligations follows:

	Original Issue Date	Interest Rate (%)	Original Issue Amount	Date of Maturity
<b>General Obligation</b>				
Various Purpose - 2007	2007	3.75 - 4.0	4,125,000	December 1, 2021
Various Purpose - 2009	2009	3.0 - 5.0	5,259,999	December 1, 2020
<b>OWDA Loans</b>				
Chardon Road Sewer	1999	4.56	1,554,105	January 1, 2019
Brushview Road Sewer	2000	4.12	439,366	January 1, 2020
Highland Road - Meadowlane	2001	3.79	648,031	January 1, 2021
Richmond Road	2003	3.90	923,490	January 1, 2023
Sunset/Skyline Sewer Construction	2004	3.20 - 3.59	1,036,790	January 1, 2024
Dunbarton/Cary Jay - Construction	2005	3.41	564,812	January 1, 2025
Richmond Road et al Sewers	2006	3.35	1,265,403	January 1, 2026
Richmond Road and Side Streets	2008	3.25	1,769,784	January 1, 2028
<b>OPWC Loan</b>				
Skyline-Glen Oval Waterline and Pavement	2010	0.00	743,411	January 1, 2030
<b>Intergovernmental Payable</b>				
City of Highland Heights	2002	0.00	190,923	January 1, 2020
<b>Long-Term Note</b>				
Street Improvement Note	2016	1.25	1,190,000	June 14, 2017

**CITY OF RICHMOND HEIGHTS**  
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**NOTE 18: LONG-TERM OBLIGATIONS** (Continued)

A schedule of changes in bonds and other long-term obligations of the City during 2016 follows:

	Principal Outstanding 12/31/2015	Additions	Deletions	Principal Outstanding 12/31/2016	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
<b><u>General Obligation Bonds</u></b>					
Various Purpose - 2007	\$ 1,950,000	\$ -	\$ (390,000)	\$ 1,560,000	\$ 405,000
Unamortized Premium	11,136	-	(1,855)	9,281	-
Various Purpose - 2009					
Refunding	1,049,999	-	(240,000)	809,999	250,000
General Obligation	1,330,000	-	(320,000)	1,010,000	330,000
Unamortized Premium	112,106	-	(22,421)	89,685	-
<b>Total General Obligation Bonds</b>	<b>4,453,241</b>	<b>-</b>	<b>(974,276)</b>	<b>3,478,965</b>	<b>985,000</b>
<b><u>OWDA Loans</u></b>					
Chardon Road Sewer	382,230	-	(103,007)	279,223	107,758
Brushview Road Sewer	132,091	-	(27,298)	104,793	28,434
Highland Road - Meadowlane	228,957	-	(38,191)	190,766	39,653
Richmond Road	431,594	-	(50,583)	381,011	52,575
Sunset/Skyline Sewer Construction	539,905	-	(55,375)	484,530	57,381
Dunbarton/Cary Jay - Construction	321,203	-	(29,161)	292,042	30,164
Richmond Road et al Sewers	698,154	-	(56,500)	641,654	58,408
Richmond Road and Side Streets	1,222,640	-	(76,947)	1,145,693	79,468
<b>Total OWDA Loans</b>	<b>3,956,774</b>	<b>-</b>	<b>(437,062)</b>	<b>3,519,712</b>	<b>453,841</b>
<b><u>OPWC Loan</u></b>					
Skyline-Glen Oval Waterline and Pavement	538,971	-	(37,171)	501,800	37,171
<b>Total OPWC Loan</b>	<b>538,971</b>	<b>-</b>	<b>(37,171)</b>	<b>501,800</b>	<b>37,171</b>
<b><u>Net Pension Liability</u></b>					
OPERS	1,422,850	1,098,086	-	2,520,936	-
OP&F	7,544,128	2,012,388	-	9,556,516	-
<b>Total Net Pension Liability</b>	<b>8,966,978</b>	<b>3,110,474</b>	<b>-</b>	<b>12,077,452</b>	<b>-</b>
<b><u>Other Long-term Liabilities</u></b>					
City of Highland Heights	47,893	-	(9,546)	38,347	9,546
Long Term Note	1,190,000	1,190,000	(1,190,000)	1,190,000	1,190,000
Police Pension Liability	38,985	-	(1,321)	37,664	1,378
Capital Leases	18,353	-	(8,641)	9,712	6,306
Compensated Absences	859,725	173,394	(168,947)	864,172	195,350
<b>Total Other Long-term Liabilities</b>	<b>2,154,956</b>	<b>1,363,394</b>	<b>(1,378,455)</b>	<b>2,139,895</b>	<b>1,402,580</b>
<b>Total Governmental Long-Term Liabilities</b>	<b>\$ 20,070,920</b>	<b>\$ 4,473,868</b>	<b>\$ (2,826,964)</b>	<b>\$ 21,717,824</b>	<b>\$ 2,878,592</b>

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NOTE 18: **LONG-TERM OBLIGATIONS** (Continued)

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement Debt Service Fund using property tax revenues.

The OWDA loans are being paid from the Bond Retirement Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. OWDA loans will be paid with Special Assessment revenue.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights. The total amount owed to the City of Highland Heights as of December 31, 2016, is \$38,347 and has been recorded as a long-term liability in the government-wide financial statements and will be repaid from special assessments levied on the affected properties from the Bond Retirement Debt Service Fund.

In 2009, the City defeased a 2001 law enforcement general obligation bond issue in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2016, \$995,000 of the defeased bonds are still outstanding.

The police pension liability will be paid from property tax revenue in the Police Pension Fund. The compensated absences will be paid from the General and Fire Service funds.

During 2016, the City issued a \$1,190,000 bond anticipation note at a rate of 1.25 percent which will mature in 2017. These notes were used for the street resurfacing. The notes are backed by the full faith and credit of the City.

The City's overall legal debt margin was \$21,600,797 at December 31, 2016. The unvoted legal debt margin was \$9,628,745.

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**NOTE 18: LONG-TERM OBLIGATIONS** (Continued)

Principal and interest requirements to retire the general obligation bonds, OWDA loans, OPWC loans, intergovernmental payable, and the police pension liability as of December 31, 2016, are as follows:

	G.O. Bonds		OWDA Loans		OPWC
	Principal	Interest	Principal	Interest	Principal
2017	\$ 985,000	\$ 137,050	\$ 453,841	\$ 102,219	\$ 37,171
2018	870,000	97,650	471,275	88,475	37,171
2019	895,000	62,850	430,198	73,759	37,171
2020	324,999	279,001	368,602	62,085	37,171
2021	305,000	12,200	341,986	51,160	37,171
2022-2026	-	-	1,230,812	119,698	185,855
2027-2031	-	-	222,998	8,430	130,090
2032-2036	-	-	-	-	-
	<u>\$ 3,379,999</u>	<u>\$ 588,751</u>	<u>\$ 3,519,712</u>	<u>\$ 505,826</u>	<u>\$ 501,800</u>

  

	Intergovernmental Payable		Police Pension		Total	
	Principal		Principal	Interest	Principal	Interest
2017	\$ 9,546	\$ 1,378	\$ 1,585	\$ 1,486,936	\$ 240,854	
2018	9,546	1,437	1,526	1,389,429	187,651	
2019	9,546	1,499	1,464	1,373,414	138,073	
2020	9,546	1,563	1,400	741,881	342,486	
2021	163	1,630	1,332	685,950	64,692	
2022-2026	-	9,264	5,550	1,425,931	125,248	
2027-2031	-	11,432	3,382	364,520	11,812	
2032-2036	-	9,428	810	9,428	810	
	<u>\$ 38,347</u>	<u>\$ 37,631</u>	<u>\$ 17,049</u>	<u>\$ 7,477,489</u>	<u>\$ 1,111,626</u>	

**NOTE 19: CAPITAL LEASES**

Capital lease obligations relate to copiers which are leased under long-term agreements. These leases meet the criteria of a capital lease as defined under generally accepted accounting standards. Capital lease payments in the governmental funds will be reclassified and reflected as debt service in the basic financial statements for the general fund. These expenditures will be reflected as program/function expenditures on a budgetary basis.



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NOTE 19: **CAPITAL LEASES** (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2016.

Year	Amount
2017	\$ 6,641
2018	3,481
Total Minimum Lease Payments	10,122
Less: Amount Representing Interest	(410)
Present Value of Minimum Lease Payments	\$ 9,712

The assets being acquired have been capitalized in the governmental activities in the amount of \$37,091, which is the present value of the minimum lease payments at the inception of the lease.

NOTE 20: **JOINTLY GOVERNED ORGANIZATION**

**Eastern Suburban Regional Council of Governments**

The City is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed, by written agreement pursuant to Ohio Rev. Code Section 167.01, in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. The governing body of ESRCOG is a council comprised of one representative from each of the five participating municipalities. The Council adopts a budget for ESCOG annually. Each member's degree of control is limited to its representation on the Council.

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

In 2016, the City contributed \$14,000. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.

**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 203 communities in 13 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.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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NOTE 20: **JOINTLY GOVERNED ORGANIZATION** (Continued)

**Northeast Ohio Public Energy Council** (continued)

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the nine-member NOPEC Board of Directors. The Board 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. The City did not make any payments to NOPEC during 2016. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

**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 2016. 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.

NOTE 21: **RELATED ORGANIZATION**

The City established an independent organization called the Greenwood Farms Historical, Cultural, and Arts Association to facilitate the programming of a historical property on Richmond Road the City acquired. This property is known as the Greenwood Farm or the Phyper property. The Association is governed by a Board of Directors. The City appoints all Board members for the Association. The Association will lease the property from the City, determine programming, and facilitate the necessary repairs and renovations to the property needed to provide that programming. The programming and property upkeep are separate from City operations.

In 2016, the City contributed \$8,867. Financial information can be obtained from the Association, Fred Cash, President, 26789 Highland Road, Richmond Heights, Ohio, 44143.

NOTE 22: **SUBSEQUENT EVENT**

The City's residents passed a ballot issue in November 2016 to limit the City's municipal income tax credit to 1.25% beginning in 2017. Through 2016, Richmond Heights had a 2.25% tax rate with a 100% credit for taxes paid to other municipalities. The impact on the City's revenue will be fully realized over the next three to four years.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM  
 LAST THREE YEARS (1)**

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	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's Proportion of the Net Pension Liability	0.014554%	0.011797%	0.011797%
City's Proportionate Share of the Net Pension Liability	\$ 2,520,936	\$ 1,422,850	\$ 1,390,713
City's Covered-Employee Payroll	\$ 1,674,792	\$ 1,583,675	\$ 1,480,869
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	150.52%	89.84%	93.91%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 OHIO POLICE AND FIRE PENSION FUND  
 LAST THREE YEARS (1)**

<b>Police</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.0640633%	0.0622547%	0.0622547%
City's Proportionate Share of the Net Pension Liability	\$4,121,234	\$3,225,053	\$3,031,999
City's Covered-Employee Payroll	\$1,451,679	\$1,372,358	\$1,268,436
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	283.89%	235.00%	239.03%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%
<b>Fire</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.0844897%	0.0833731%	0.0833731%
City's Proportionate Share of the Net Pension Liability	\$5,435,282	\$4,319,075	\$4,060,532
City's Covered-Employee Payroll	\$1,549,830	\$1,496,702	\$1,459,624
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	350.70%	288.57%	278.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

(1) Information prior to 2013 is not available.

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE CITY'S CONTRIBUTIONS  
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM  
 LAST FOUR YEARS (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 207,944	\$ 200,975	\$ 190,041	\$ 192,513
Contributions in Relation to the Contractually Required Contribution	<u>(207,944)</u>	<u>(200,975)</u>	<u>(190,041)</u>	<u>(192,513)</u>
Contribution Deficiency / (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's Covered-Employee Payroll	\$ 1,732,867	\$ 1,674,792	\$ 1,583,675	\$ 1,480,869
Pension Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE CITY'S CONTRIBUTIONS  
 OHIO POLICE AND FIRE PENSION FUND  
 LAST TEN YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Contractually Required Contributions</u>										
Police	\$ 293,500	\$ 275,819	\$ 260,748	\$ 199,525	\$ 161,979	\$ 166,672	\$ 301,187	\$ 204,833	\$ 286,564	\$ 291,504
Fire	359,915	364,210	351,725	295,282	253,951	234,614	341,818	279,732	313,460	319,378
Total Required Contributions	653,415	640,029	612,473	494,807	415,930	401,286	643,005	484,565	600,024	610,882
Contributions in Relation to the Contractually Required Contribution	(653,415)	(640,029)	(612,473)	(494,807)	(415,930)	(401,286)	(643,005)	(484,565)	(600,024)	(610,882)
Contribution Deficiency / (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>City's Covered-Employee Payroll</u>										
Police	\$ 1,544,737	\$ 1,451,679	\$ 1,372,358	\$ 1,268,436	\$ 1,270,424	\$ 1,307,231	\$ 2,362,251	\$ 1,606,533	\$ 2,247,561	\$ 2,286,306
Fire	\$ 1,531,553	\$ 1,549,830	\$ 1,496,702	\$ 1,459,624	\$ 1,472,180	\$ 1,360,081	\$ 1,981,554	\$ 1,621,635	\$ 1,817,159	\$ 1,851,467
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

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

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)**

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

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

**OHIO POLICE AND FIRE (OP&F) PENSION FUND**

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

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

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# Dave Yost • Auditor of State

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

City of Richmond Heights  
Cuyahoga County  
26789 Highland Road  
Richmond Heights, Ohio 44143

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 26, 2017.

### ***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

***Compliance and Other Matters***

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

***City's Response to the Finding***

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 26, 2017

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2016-001**

**Agency Fund Deposits – Significant Deficiency**

The City could not provide a reconciled open item listing of guaranteed deposits on hand as of December 31, 2016 for their Building Bond Fund and Sidewalk Bond Fund. This was due to no reconciliation being completed between the system fund balances for these funds and any guaranteed deposits on hand.

Also, fees which are withheld from the refunding of deposits are not being remitted to the City's General Fund. These fees are remaining in the Building Bond Agency Fund and Sidewalk Bond Agency Fund. At December 31, 2016, the Building Bond Fund and Sidewalk Fund had a total combined balance of \$380,949. Since the City does not perform a reconciliation, the City may not be able to identify how much of this total belongs to their General Fund as operating monies, and how much actually belongs in their Building Bond Fund and Sidewalk Bond Fund to cover any outstanding guaranteed deposits.

The Finance Director should establish proper reconciliation controls over their Building Bond Agency Fund and Sidewalk Bond Agency Fund. Any discrepancies should be investigated and resolved. Any unclaimed funds within these Agency funds in excess of five years should be remitted to the General Fund. Also, inspection fees issued by the City should be remitted to the City's General Funds so these monies may be appropriated and used for City operations.

**Officials' Response:** The City has retained the services of one of its former Finance Directors in order to examine agency fund deposits. Excel pivot tables are used, along with input from the City's building department, which will enhance the City's ability to proficiently reconcile this activity from 1997 through today. When this project concludes, a final written report will be prepared, and new policies and procedures implemented, which should provide a solid foundation to satisfy a court approval of these reconciled ending fund balances.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Agency Fund Deposits	Not Corrected	City is investigating a proposal to correct this issue



# Dave Yost • Auditor of State

**CITY OF RICHMOND 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  
OCTOBER 10, 2017**