

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

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



Dave Yost • Auditor of State

City of Council
City of University Heights
2300 Warrensville Center Road
University Heights, Ohio 44118

We have reviewed the *Independent Auditor's Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

November 20, 2018

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**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights as of December 31, 2017, and the respective changes in financial position and the budgetary comparisons for the General Fund and the Street Maintenance Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

October 30, 2018

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

The discussion and analysis of the City of University Heights's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,552,906.
- The net position increased by \$910,904 from the prior year. Total assets and deferred outflows of resources increased by \$1,357,238 and liabilities and deferred inflows of resources increased by \$446,334.
- The total fund balance for the General Fund was \$4,767,667, an increase of \$378,418 from prior year.

Using this Annual Financial Report

This discussion and analysis are intended to serve as an introduction to the City of University Heights's basic financial statements. The City of University Heights's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information on all the City's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increase or decrease in net position may serve as a useful indicator of whether the financial position of the City of University Heights is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Fund Financial Statements - Reporting the City's Most Significant Funds

Fund Financial Statements

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

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 the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

For the City's governmental funds, information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, and other major funds.

The basic governmental fund financial statements can be found starting on page 15 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The fiduciary fund financial statements can be found starting on page 21 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 23 of this report.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Government-wide Financial Analysis – The City as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

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

- Assets and Deferred Outflows of Resources
- Liabilities and 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 and End of Year

Table 1 provides a summary of the City's net position for 2017 as compared to 2016.

Table 1 - Net Position

	Governmental Activities	
	2017	2016
<u>Assets</u>		
Current and Other Assets	\$ 20,795,422	\$ 19,938,452
Net Pension Asset	8,536	6,307
Capital Assets	12,580,611	11,507,585
Total Assets	33,384,569	31,452,344
<u>Deferred Outflows of Resources</u>		
Pension	4,232,437	4,807,424
<u>Liabilities</u>		
Current and other liabilities	1,242,299	1,126,160
Long-term Liabilities:		
Due within one year	960,844	1,134,959
Due in more than one year:		
Net Pension Liability	18,419,261	18,056,596
Other Amounts	3,669,426	3,983,151
Total Liabilities	24,291,830	24,300,866
<u>Deferred Inflows of Resources</u>		
Property Taxes	2,179,675	2,095,196
Pension	592,595	221,704
Total Deferred Inflows of Resources	2,772,270	2,316,900
<u>Net Position</u>		
Net Investment in Capital Assets	9,106,667	7,580,740
Restricted	6,133,089	5,887,523
Unrestricted	(4,686,850)	(3,826,261)
Total Net Position	\$ 10,552,906	\$ 9,642,002

City of University Heights, Ohio
Management’s Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

The City has 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 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.

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.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Total assets increased \$1,932,225. The majority of the increase was due to increases in equity in pooled cash and cash equivalents and in capital assets. Total liabilities decreased slightly by \$9,036. The changes in deferred outflows and inflows of resources were due to pension.

A portion of the City's net position of \$9,106,667 reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's 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 resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$6,133,089 represents resources that have been restricted on how they may be used.

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City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

In order to further understand what makes up the changes in net position for the current year, Table 2 provides further details regarding the results of activities for the current year.

Table 2 - Change in Net Position

	Governmental Activities	
	2017	2016
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,409,483	\$ 1,439,478
Operating Grants and Contributions	351,134	1,669,189
Capital Grants and Contributions	1,079,738	499,187
General Revenues:		
Property Taxes	3,067,597	4,188,846
Municipal Income Taxes	10,027,918	9,495,688
Payments in lieu of taxes	724,269	703,140
Other Taxes	143,987	162,103
Grants and Entitlements	595,683	1,077,502
Investment income	69,524	48,267
Gain on Sale of Capital Assets	17,258	33,649
All Other Revenue	240,908	105,060
Total Revenues	17,727,499	19,422,109
<u>Program Expenses</u>		
Security of Persons and Property	9,187,082	9,242,469
Public Health and Welfare	53,073	53,073
Leisure Time Activities	351,769	307,817
Community Development	1,625,405	1,656,259
Basic Utility Services	1,993,234	3,070,842
Transportation	1,682,672	1,511,627
General Government	1,842,305	1,682,639
Interest and Fiscal Charges	81,055	91,745
Total Program Expenses	16,816,595	17,616,471
Increase in Net Position	910,904	1,805,638
Net Position, Beginning of Year	9,642,002	7,836,364
Net Position, End of Year	\$ 10,552,906	\$ 9,642,002

Total revenues decreased by \$1,694,610 or 8.73 percent mainly due to decreases in operating grants and contributions, property taxes and grants and entitlements, which was offset by increases to capital grants and contributions and municipal income taxes. Grants and contributions decreased due to water line project money received in 2016 and not in 2017. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2017, the income tax revenue was \$10,027,918. Another major revenue source is property taxes. The effective tax rate for 2017 was \$13.20 per \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by the City, Cuyahoga County, Cleveland Heights-University Heights City School District and Cleveland Heights-University Heights Public Library. During 2017, the property tax revenue was \$3,067,597

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Total program expenses decreased by \$799,876 or 4.54 percent in 2017 when compared to 2016. This decrease can be attributed mainly to a decrease in basic utility services due to a number of major projects completed by the City in 2016, including water line project.

Expenses are categorized by functions. The largest program expense, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety, was 54.63 percent of the total governmental expenses. The second largest program expense is basic utility service and represents 11.85 percent of the total governmental expenses. This program expense is made up of the sanitation department and the sewer maintenance. The City is a labor intensive industry and the expenses of the governmental activities are mainly salaries, wages and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued grants and financial assistance from the Ohio Public Works Commission. In addition, the City determines the size of the road program based upon cash available as the City has instituted a "pay as you go" philosophy.

The City's Funds

Information about the City's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting.

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

As of the end of the year, the City's governmental funds reported combined ending fund balance of \$9,016,715, an increase of \$564,541 in comparison with the prior year. \$4,505,078 of the ending combined fund balance for 2017 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the governments discretion. The remainder of fund balance is *nonspendable, 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.

The General Fund is the main operating fund of the City. At the end of 2017, total fund balance for the General Fund was \$4,767,667. The General Fund balance increased by \$378,418 during the current fiscal year.

General Fund Budgeting Highlights

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

The original and final appropriations, including other financing uses is \$17,232,651. The actual charges to appropriations (expenditures) were \$3,123,195 below the final budgeted amount for the General Fund mostly due to the operating efficiencies.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Capital Assets and Debt Administration

Capital Assets

At the end of 2017, the City of University Heights had \$12,580,611 invested in a broad range of capital assets, including land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure.

Table 3 shows fiscal 2017 balances of capital assets as compared to 2016:

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

	Governmental Activities	
	2017	2016
Land	\$ 986,959	\$ 986,959
Construction-in-progress	-	1,802,444
Buildings and Improvements	2,855,953	1,104,515
Vehicles	998,979	795,597
Equipment	576,712	634,921
Infrastructures:		
Pavement	5,942,115	4,943,274
Traffic Lights	43,496	44,588
Storm Sewers	157,855	161,616
Sanitary Sewers	1,018,542	1,033,671
Total Capital Assets	\$ 12,580,611	\$ 11,507,585

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as police cars are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame.

During 2017, the City purchased vehicles and equipment for \$509,704. The City completed and placed into use the University Heights Community Park on Fenwick Road. The City performed street paving on Raymont, Wynn, Cedarbrook, Cranston, Hillbrook (from Meadowbrook to Fenwick), Eaton, Miramar (between Silsby and Washington), and Groveland (between Wrenford and Milton). New curbs were installed on several streets: Eaton, Hillbrook (from Meadowbrook to Fenwick), Meadowbrook (from Warrensville to Washington), Miramar (between Silsby and Washington), and Silsby (from Belvoir to Milton) More detailed information about the City's capital assets is presented in Note 8 to the financial statements.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Debt

At December 31, 2017, the City of University Heights had \$3,473,944 in outstanding debt, of which \$2,795,000 was in general obligation bonds. Table 4 summarizes the outstanding debt obligations of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2017	2016
General Obligation Bonds	\$ 2,795,000	\$ 3,145,000
OPWC Loans	516,605	541,891
SIB Loan	162,339	239,954
Total Outstanding Debt	\$ 3,473,944	\$ 3,926,845

The City paid \$245,000 on principal for the 2013 Various Purpose Bonds and \$105,000 on principal for the 2015 Park Improvement Bonds.

The City's general obligation bond rating continues to carry an A1 rating, assigned by national rating agencies to the City's debt since 1997. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below the state imposed limit.

The City paid \$77,615 on principal for the State Infrastructure Bank Loan for reconstruction of University Parkway.

Other obligations include Net Pension Liability, accrued compensated absences and OPWC loans. More detailed information about the City's long-term liabilities is presented in Note 11 to the basic financial statements.

Current Related Financial Activities

In preparing for the 2018 budget, the City has recognized slightly increasing revenues. Budget projections include a slight increase in wages and income tax collections. The City expects its budgetary constraints to continue. To maintain the integrity of the budget in 2017, the City will continue to control spending, continue applying for grant funding to finance capital projects and continue a policy of "pay as you go" for capital expenditures. With no unforeseen impacts to revenue or expenses, the City anticipates the General Fund balance to remain consistent in 2017.

Contacting the City of University Heights'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 James Patrick Goffe II, Finance Director, at 2300 Warrensville Center Road, University Heights, Ohio 44118.

Basic Financial Statements

City of University Heights, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 7,788,459
Materials and Supplies Inventory	87,070
Accounts Receivable	125,687
Accrued Interest Receivable	20,048
Intergovernmental Receivable	849,699
Prepaid Items	235,479
Income Taxes Receivable	4,185,486
Property and Other Taxes Receivable	6,453,413
Special Assessments Receivable	1,050,081
Net Pension Asset	8,536
Nondepreciable Capital Assets	986,959
Depreciable Capital Assets	11,593,652
Total Assets	33,384,569
 DEFERRED OUTFLOWS OF RESOURCES	
Pension	4,232,437
Total Deferred Outflows of Resources	4,232,437
 LIABILITIES	
Accounts Payable	518,007
Contracts Payable	256,860
Accrued Wages and Benefits	292,210
Intergovernmental Payable	168,390
Accrued Interest Payable	6,832
Long-term Liabilities:	
Due within one year	960,844
Due in more than one year:	
Net Pension Liability (See Note 9)	18,419,261
Other Amounts Due in more than one year	3,669,426
Total Liabilities	24,291,830
 DEFERRED INFLOWS OF RESOURCES	
Property Taxes	2,179,675
Pension	592,595
Total Deferred Inflows of Resources	2,772,270
 NET POSITION	
Net Investment in Capital Assets	9,106,667
Restricted for:	
Debt Services	1,374,014
Capital Projects	1,418,516
Sewer Maintenance	1,135,304
Community Development	733,935
Street Maintenance and Lighting	891,852
Other Purposes	579,468
Unrestricted	(4,686,850)
Total Net Position	\$ 10,552,906

See accompanying notes to the basic financial statements.

City of University Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2017

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 9,187,082	\$ 390,759	\$ 2,325	\$ -	\$ (8,793,998)
Public Health and Welfare	53,073	-	-	-	(53,073)
Leisure Time Activities	351,769	94,224	-	-	(257,545)
Community Development	1,625,405	542,692	-	-	(1,082,713)
Basic Utility Services	1,993,234	169,347	95,776	1,079,738	(648,373)
Transportation	1,682,672	-	250,453	-	(1,432,219)
General Government	1,842,305	212,461	2,580	-	(1,627,264)
Interest and Fiscal Charges	81,055	-	-	-	(81,055)
Total Governmental Activities	<u>\$ 16,816,595</u>	<u>\$ 1,409,483</u>	<u>\$ 351,134</u>	<u>\$ 1,079,738</u>	<u>(13,976,240)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					2,486,501
Debt Service Purpose					453,751
Special Revenue					127,345
Payments in Lieu of taxes					724,269
Municipal Income Taxes levied for:					
General Purposes					10,027,918
Other Taxes					143,987
Grants & Entitlements not restricted to specific programs					595,683
Investment Income					69,524
Gain on Sale of Capital Assets					17,258
All Other Revenues					240,908
Total General Revenues					<u>14,887,144</u>
Change in Net Position					910,904
Net Position - Beginning of Year					9,642,002
Net Position - End of Year					<u><u>\$ 10,552,906</u></u>

See accompanying notes to the basic financial statements.

City of University Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2017

	General Fund	Street Maintenance	Other Governmental Funds	Total Governmental Funds
ASSETS				
Equity in Pooled Cash and Cash Equivalents	\$ 3,138,691	\$ 574,756	\$ 4,075,012	\$ 7,788,459
Materials and Supplies Inventory	31,092	55,978	-	87,070
Accrued Interest Receivable	20,048	-	-	20,048
Accounts Receivable	125,687	-	-	125,687
Intergovernmental Receivable	348,677	392,984	108,038	849,699
Prepaid Items	222,497	9,963	3,019	235,479
Income Taxes Receivable	4,185,486	-	-	4,185,486
Property and Other Taxes Receivable	5,177,572	-	1,275,841	6,453,413
Special Assessments Receivable	53,660	-	996,421	1,050,081
Total Assets	\$ 13,303,410	\$ 1,033,681	\$ 6,458,331	\$ 20,795,422
LIABILITIES				
Liabilities:				
Accounts Payable	\$ 94,688	\$ 9,114	\$ 414,205	\$ 518,007
Accrued Wages and Benefits	282,627	7,160	2,423	292,210
Contracts Payable	-	256,860	-	256,860
Intergovernmental Payable	36,578	3,752	128,060	168,390
Total Liabilities	413,893	276,886	544,688	1,235,467
DEFERRED INFLOWS OF RESOURCES				
Property Taxes	1,736,174	-	443,501	2,179,675
Unavailable Revenue - Delinquent Property Taxes	3,393,399	-	832,340	4,225,739
Unavailable Revenue - Income Taxes	2,566,856	-	-	2,566,856
Unavailable Revenue - Special Assessments	53,660	-	996,421	1,050,081
Unavailable Revenue - Other	371,761	118,319	30,809	520,889
Total Deferred Inflows of Resources	8,121,850	118,319	2,303,071	10,543,240
FUND BALANCES				
Nonspendable	253,589	65,941	3,019	322,549
Restricted	-	572,535	3,616,553	4,189,088
Assigned	2,276,746	-	-	2,276,746
Unassigned	2,237,332	-	(9,000)	2,228,332
Total Fund Balances	4,767,667	638,476	3,610,572	9,016,715
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,303,410	\$ 1,033,681	\$ 6,458,331	\$ 20,795,422

See accompanying notes to the basic financial statements.

City of University Heights, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2017

Total Governmental Fund Balances \$ 9,016,715

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 12,580,611

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

Delinquent Property taxes	4,225,739	
Municipal Income taxes	2,566,856	
Special assessments	1,050,081	
Intergovernmental	424,834	
Charges for services	63,988	
Other taxes	20,059	
All other revenues	12,008	
Total		8,363,565

In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due. (6,832)

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

Deferred Outflows - Pension	4,232,437	
Deferred Inflows - Pension	(592,595)	
Net Pension Liability	(18,419,261)	
Net Pension Asset	8,536	
Total		(14,770,883)

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

General obligation bonds	(2,795,000)	
OPWC loans	(516,605)	
SIB Loan	(162,339)	
Compensated absences	(1,156,326)	
Total		(4,630,270)

Net Position of Governmental Activities \$ 10,552,906

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended December 31, 2017

	General Fund	Street Maintenance	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 2,431,727	\$ -	\$ 567,669	\$ 2,999,396
Municipal Income Taxes	9,997,545	-	-	9,997,545
Payments in lieu of taxes	-	-	724,269	724,269
Other Taxes	123,928	-	-	123,928
Intergovernmental	743,063	638,838	162,494	1,544,395
Interest	69,524	-	-	69,524
Licenses and Permits	354,711	-	-	354,711
Fines and Forfeitures	143,519	-	-	143,519
Charges for Services	548,507	-	-	548,507
Special Assessments	37,454	-	847,566	885,020
All Other Revenues	228,900	-	-	228,900
Total Revenues	14,678,878	638,838	2,301,998	17,619,714
EXPENDITURES				
Security of Persons and Property	7,440,407	-	957,971	8,398,378
Public Health and Welfare	53,073	-	-	53,073
Leisure Time Activities	270,802	-	-	270,802
Community Development	603,934	-	877,895	1,481,829
Basic Utility Services	1,168,256	-	644,657	1,812,913
Transportation	401,193	465,136	-	866,329
General Government	1,640,053	-	10,868	1,650,921
Capital Outlay	-	1,431,603	571,343	2,002,946
Debt Service:				
Principal Retirement	-	-	452,901	452,901
Interest and Fiscal Charges	-	-	82,339	82,339
Total Expenditures	11,577,718	1,896,739	3,597,974	17,072,431
Excess of Revenues Over (Under) Expenditures	3,101,160	(1,257,901)	(1,295,976)	547,283
<u>OTHER FINANCING SOURCES (USES)</u>				
Sale of Capital Assets	17,258	-	-	17,258
Transfer In	-	1,000,000	1,740,000	2,740,000
Transfer Out	(2,740,000)	-	-	(2,740,000)
Total Other Financing Sources (Uses)	(2,722,742)	1,000,000	1,740,000	17,258
Net Change in Fund Balances	378,418	(257,901)	444,024	564,541
Fund Balances - Beginning of Year	4,389,249	896,377	3,166,548	8,452,174
Fund Balances - End of Year	\$ 4,767,667	\$ 638,476	\$ 3,610,572	\$ 9,016,715

See accompanying notes to the basic financial statements.

City of University Heights, Ohio
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 564,541

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

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

Capital outlay	\$ 1,945,557	
Depreciation	(872,531)	
Total		1,073,026

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

Property taxes	68,201	
Income taxes	30,373	
Special assessments	(21,744)	
Intergovernmental	(23,843)	
Charges for services	5,473	
Other taxes	20,059	
All other revenues	12,008	
Total		90,527

Repayment of various debt principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 452,901

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,314,657

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,620,971)

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	34,939	
Accrued interest	1,284	
Total		36,223

Change in Net Position of Governmental Activities **\$ 910,904**

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Property Taxes	\$ 2,320,000	\$ 2,320,000	2,431,727	\$ 111,727
Municipal Income Taxes	9,980,000	9,980,000	10,047,997	67,997
Other Taxes	150,000	150,000	135,026	(14,974)
Licenses and Permits	389,360	389,360	344,755	(44,605)
Fines and Forfeitures	174,020	174,020	149,749	(24,271)
Special Assessments	34,600	34,600	37,454	2,854
Charges for Services	531,300	531,300	530,811	(489)
Intergovernmental	754,640	754,640	802,311	47,671
Interest	60,000	60,000	81,168	21,168
All Other Revenues	150,100	150,100	237,475	87,375
Total Revenues	<u>14,544,020</u>	<u>14,544,020</u>	<u>14,798,473</u>	<u>254,453</u>
EXPENDITURES:				
Current:				
General Government	2,036,698	2,036,698	1,558,813	477,885
Security of Persons and Property	8,340,536	8,340,536	7,339,401	1,001,135
Basic Utility	1,286,312	1,286,312	1,140,902	145,410
Transportation	487,248	487,248	403,004	84,244
Public Health and Welfare	55,800	55,800	53,073	2,727
Community Development	959,588	959,588	599,574	360,014
Leisure Time Activities	361,469	361,469	274,689	86,780
Total Expenditures	<u>13,527,651</u>	<u>13,527,651</u>	<u>11,369,456</u>	<u>2,158,195</u>
Excess of Revenues over Expenditures	<u>1,016,369</u>	<u>1,016,369</u>	<u>3,429,017</u>	<u>2,412,648</u>
OTHER FINANCING SOURCES (USES):				
Sale of Fixed Assets	8,625	8,625	17,175	8,550
Transfers In	396	396	396	-
Transfers Out	(3,705,000)	(3,705,000)	(2,740,000)	965,000
Total Other Financing Sources and Uses	<u>(3,695,979)</u>	<u>(3,695,979)</u>	<u>(2,722,429)</u>	<u>973,550</u>
Net Change in Fund Balance	(2,679,610)	(2,679,610)	706,588	3,386,198
Fund Balances, Beginning	2,520,000	2,520,000	2,520,000	-
Prior Year Encumbrances Appropriated	174,503	174,503	174,503	-
Fund Balances, Ending	<u>\$ 14,893</u>	<u>\$ 14,893</u>	<u>\$ 3,401,091</u>	<u>\$ 3,386,198</u>

See accompanying notes to the basic financial statements.

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Street Maintenance Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 408,000	\$ 408,000	\$ 570,707	\$ 162,707
Total Revenues	<u>408,000</u>	<u>408,000</u>	<u>570,707</u>	<u>162,707</u>
EXPENDITURES:				
Current:				
Transportation	767,801	767,801	458,887	308,914
Capital Outlay	1,404,821	1,404,821	1,329,564	75,257
Total Expenditures	<u>2,172,622</u>	<u>2,172,622</u>	<u>1,788,451</u>	<u>384,171</u>
Excess of Revenues over Expenditures	<u>(1,764,622)</u>	<u>(1,764,622)</u>	<u>(1,217,744)</u>	<u>546,878</u>
OTHER FINANCING SOURCES:				
Transfers In	1,250,000	1,250,000	1,000,000	(250,000)
Total Other Financing Sources	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,000,000</u>	<u>(250,000)</u>
Net Change in Fund Balance	(514,622)	(514,622)	(217,744)	296,878
Fund Balances, Beginning	649,258	649,258	649,258	-
Prior Year Encumbrances Appropriated	143,242	143,242	143,242	-
Fund Balances, Ending	<u>\$ 277,878</u>	<u>\$ 277,878</u>	<u>\$ 574,756</u>	<u>\$ 296,878</u>

See accompanying notes to the basic financial statements.

City of University Heights, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 279,904
Total Assets	<u>\$ 279,904</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 279,904
Total Liabilities	<u>\$ 279,904</u>

See accompanying notes to the basic financial statements

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

Notes to the Basic Financial Statements

City of University Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 1: The Reporting Entity

The City of University Heights, Ohio (the “City”) is a municipal corporation governed by an elected mayor and council.

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 University Heights, this includes police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation.

Component units are legally separate organizations for which the City is 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. 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 does not have any component units.

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal activity is eliminated to avoid doubling up revenues and expenses.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

A. **Basis of Presentation** (Continued)

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 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 or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

B. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are 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 typically 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 is reported as fund balance. 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 and/or the general laws of Ohio.

Street Maintenance Special Revenue Fund - The Street Maintenance Special Revenue Fund accounts for all maintenance of the streets.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

B. Fund Accounting (Continued)

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

Fiduciary Funds

Fiduciary fund reporting focuses on 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's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's own fiduciary funds are agency funds which consist primarily of construction deposits.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Position, except for fiduciary funds. 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 along with current liabilities and deferred inflows generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows along with all liabilities and deferred inflows associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. The City has no proprietary funds.

Fiduciary funds are reported using a flow of the economic resources measurement focus.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary 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 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. Available period for the City is sixty days after 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 nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

D. Basis of Accounting (Continued)

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

Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations and project revenue represents imposed nonexchange revenues. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, intergovernmental, charges for services, other taxes and other revenues. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 9).

Expenses/Expenditures

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

E. Budgetary Process

Annual budgets are adopted on a cash basis for all governmental funds. All annual appropriations lapse at fiscal year end.

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

The appropriated budget is prepared at the fund, department, personal services and other expenses level for all funds, which is the legal level of control. Transfers of appropriations between departments require the approval of the Council. Expenditures may not exceed appropriations at the legal level of control.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the investment trust fund, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During 2017, the portfolio was limited to a money market mutual fund, negotiable certificates of deposits, STAR Ohio and federal agencies. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

During 2017, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79 "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2017, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2017 amounted to \$69,524, which includes \$43,024 assigned from other funds. GASB Statement No. 31 requires the change in fair value to be reported as revenue. During 2017, the change in fair value decreased the City's total investments by \$69,960. This decrease of the change in fair value resulted in the City presenting a negative amount in interest income on the financial statements.

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

G. Inventory

Inventories are stated at cost, on the first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

I. Capital Assets

General capital assets are those long-lived assets of the City as a whole. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of pavement, storm sewers, and sanitary sewers. Improvements that add to the value of the asset or materially extend the life of an asset 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 capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	10-40 years
Equipment	5-7 years
Vehicles	5-7 years
Infrastructure	20-99 years

J. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received and from short-term interfund loans are classified as "interfund receivables/payables." Interfund balance amounts are eliminated in the Statement of Net Position.

K. Accrued Liabilities and Long-Term Obligations

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

L. Compensated Absences

The City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2017.

M. Pensions

For purposes of measuring the net pension liability/(asset), 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.

N. 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.

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.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

N. **Fund Balance** (Continued)

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.

O. **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 \$6,133,089 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

P. **Interfund Activity**

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 2: **Summary of Significant Accounting Policies** (Continued)

Q. 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 2017.

R. 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.

NOTE 3: **Changes in Accounting Principles**

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the City.

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The object of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. The implementation of GASB Statement No. 82 did not have an effect on City's beginning net position.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 4: 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 funds are presented below:

Components of Fund Balance:	General	Street Maintenance	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$ 222,497	\$ 9,963	\$ 3,019	\$ 235,479
Inventories	31,092	55,978	-	87,070
<i>Total Nonspendable</i>	<u>253,589</u>	<u>65,941</u>	<u>3,019</u>	<u>322,549</u>
<i>Restricted</i>				
Streets and Highways	-	572,535	-	572,535
Law Enforcement	-	-	277,488	277,488
Sewers	-	-	652,155	652,155
Street Lighting	-	-	45,648	45,648
Tree Improvement	-	-	518,519	518,519
Community	-	-	61,578	61,578
Energy Projects	-	-	39,178	39,178
General Bond Retirement	-	-	172,061	172,061
Sewer Bond Retirement	-	-	431,410	431,410
Capital Improvements	-	-	1,418,516	1,418,516
<i>Total Restricted</i>	<u>-</u>	<u>572,535</u>	<u>3,616,553</u>	<u>4,189,088</u>
<i>Assigned</i>				
Fiscal Year 2018 Appropriations	2,276,350	-	-	2,276,350
<i>Total Assigned</i>	<u>2,276,350</u>	<u>-</u>	<u>-</u>	<u>2,276,350</u>
<i>Unassigned</i>				
	2,237,728	-	(9,000)	2,228,728
Total Fund Balance	<u>\$ 4,767,667</u>	<u>\$ 638,476</u>	<u>\$ 3,610,572</u>	<u>\$ 9,016,715</u>

NOTE 5: Budgetary Basis of Accounting

While 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 and disbursements.

The Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a part of restricted, committed, or assigned fund balance (GAAP basis);

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 5: **Budgetary Basis of Accounting** (Continued)

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

	Net Change in Fund Balance	
	General	Street Maintenance
GAAP Basis	\$ 378,418	\$ (257,901)
Increase (Decrease) Due to:		
Revenue Accruals	119,512	(68,131)
Expenditure Accruals	208,658	108,288
Budgetary Basis	\$ 706,588	\$ (217,744)

NOTE 6: **Deposits and Investments**

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

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

Inactive deposits are 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 Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 6: **Deposits and Investments** (Continued)

4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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.

Cash on Hand

At year-end, the City had \$200 in undeposited cash on hand, which is included on the balance sheet of the City as part of cash and cash equivalents.

Deposits

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 the possession of an outside party. Protection of the City's cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets. Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. The City's financial institution had enrolled in OPCS as of December 31, 2017.

At year-end, the carrying amount of the City's deposits was \$743,068, and the bank balance was \$1,737,766. Of the bank balance, \$320,307 was covered by Federal depository insurance and \$1,417,459 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 6: **Deposits and Investments** (Continued)

Investments

STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. As of December 31, 2017, the city had the following investments:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u><1</u>	<u>1-3</u>	<u>3-5</u>
Money Market Mutual Fund	\$ 22,500	N/A	\$ 22,500	\$ -	\$ -
Negotiable CD's	2,317,122	N/A	748,190	1,323,754	245,178
U.S. Agencies	4,985,473	Aaa/AA+	-	2,266,286	2,719,187
Total Investments	7,325,095		\$ 770,690	\$ 3,590,040	\$ 2,964,365

The City has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2017. All of the City's investments measured at fair value are valued using quoted market prices (Level 1 and 2 inputs).

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than one year.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed. The City's investment in negotiable certificates of deposits were fully insured by Federal depository insurance.

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. See credit ratings provided by Moody's and Standard & Poor's, respectively, in the above table.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy places no limit on the amount the City may invest in one issuer.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 7: **Receivables**

A. **Property Taxes**

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections for 2016 taxes. Property tax payments received during 2017 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Auditor at 35 percent of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The latest update was completed in 2015 with the next reappraisal being scheduled in 2018.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due mid January with the remainder payable by mid July. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits earlier or 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. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

Tangible personal property used in business (except for public utilities) was phased out – the assessment percentage for all property including inventory for 2017 is zero. Amounts for prior year unpaid tangible personal property taxes may still be collected. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

While property tax rates are levied by the City, the Cuyahoga County Fiscal Officer is statutorily responsible for administering and collecting real property taxes on the behalf of all taxing authorities in the county, including the City.

The tax rate levied to finance the City’s services for the year ended December 31, 2017 was \$13.20. The assessed values of real and public utility property upon which 2017 property tax receipts were based are as follows:

Property Category	Assessed Value
Residential/agricultural	\$ 213,049,060
Commerical/industrial	32,702,550
Public Utility	3,542,890
Total	\$ 249,294,500

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 7: **Receivables** (Continued)

B. Income Taxes

The City levies municipal income tax of 2.5 percent on all salaries, wages, commissions and other compensation, and net profits earned within the City, as well as incomes of residents earned outside of the City. In the latter case, the City does allow a 1 percent credit for income tax paid to another municipality.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. The Regional Income Tax Agency collects municipal income taxes for the City. Income tax revenue is credited entirely to the General Fund.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Revenue Description</u>	<u>Amount</u>
Local Government	\$ 179,662
Homestead and Rollback	192,391
Gasoline and Auto Registration tax	177,786
Permissive tax and Liquor Permits	5,198
Grants	211,880
Miscellaneous	82,782
Total	<u>\$ 849,699</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 8: Capital Assets

Capital asset activity for government the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 986,959	\$ -	\$ -	\$ 986,959
Construction in progress	1,802,444	-	(1,802,444)	-
Total non-depreciable assets	<u>2,789,403</u>	<u>-</u>	<u>(1,802,444)</u>	<u>986,959</u>
Capital Assets, being depreciated:				
Buildings and Improvements	2,372,686	1,832,444	-	4,205,130
Vehicles	3,217,699	456,338	-	3,674,037
Equipment	1,808,218	53,366	-	1,861,584
Infrastructure:				
Pavement	8,306,370	1,405,853	-	9,712,223
Traffic Lights	44,588	-	-	44,588
Storm Sewers	230,271	-	-	230,271
Sanitary Sewers	1,235,057	-	-	1,235,057
Total Capital Assets, being depreciated	<u>17,214,889</u>	<u>3,748,001</u>	<u>-</u>	<u>20,962,890</u>
Less Accumulated depreciation:				
Buildings and Improvements	(1,268,171)	(81,006)	-	(1,349,177)
Vehicles	(2,422,102)	(252,956)	-	(2,675,058)
Equipment	(1,173,297)	(111,575)	-	(1,284,872)
Infrastructure:				
Pavement	(3,363,096)	(407,012)	-	(3,770,108)
Traffic Lights	-	(1,092)	-	(1,092)
Storm Sewers	(68,655)	(3,761)	-	(72,416)
Sanitary Sewers	(201,386)	(15,129)	-	(216,515)
Total Accumulated depreciation	<u>(8,496,707)</u>	<u>(872,531)</u>	<u>-</u>	<u>(9,369,238)</u>
Total Capital Assets being depreciated, net	<u>8,718,182</u>	<u>2,875,470</u>	<u>-</u>	<u>11,593,652</u>
Governmental Activities Capital Assets, net	<u><u>\$ 11,507,585</u></u>	<u><u>\$ 2,875,470</u></u>	<u><u>\$ (1,802,444)</u></u>	<u><u>\$ 12,580,611</u></u>

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 169,668
Leisure Time Activities	37,375
Community Development	38,661
Basic Utility Services	20,262
Transportation	575,775
General Government	30,790
	<u>\$ 872,531</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans**

A. **Net Pension Liability**

The net pension liability/(asset) 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.

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

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

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

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

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-Employment Health Care Benefits	1.0
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 \$329,566 for fiscal year ending December 31, 2017. Of this amount, \$41,405 is reported as an intergovernmental payable.

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

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
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$985,091 for 2017. Of this amount, \$126,985 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2016, 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, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. 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:

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability/Asset Prior Measurement Date	0.019172%	0.012960%	0.109760%	0.119303%	
Proportion of the Net Pension Liability/Asset Current Measurement Date	<u>0.019819%</u>	<u>0.015336%</u>	<u>0.106477%</u>	<u>0.113273%</u>	
Change in Proportionate Share	<u>0.000647%</u>	<u>0.002376%</u>	<u>-0.003283%</u>	<u>-0.006030%</u>	
Proportionate Share of the Net Pension Liability/(Asset)	\$ 4,500,558	\$ (8,536)	\$ 6,744,115	\$ 7,174,588	\$ 18,410,725
Pension Expense	\$ 994,986	\$ 5,847	\$ 822,753	\$ 797,385	\$ 2,620,971

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F Police	OP&F Fire	Total
Deferred Outflows of Resources				
Differences between expected and actual experience	\$ 6,100	\$ 1,908	\$ 2,030	\$ 10,038
Changes of assumptions	715,923	-	-	715,923
Net difference between projected and actual earnings on pension plan investments	672,320	655,835	697,698	2,025,853
Changes in proportion and differences between City contributions and proportionate share of contributions	71,533	94,433	-	165,966
City contributions subsequent to the measurement date	<u>329,566</u>	<u>490,648</u>	<u>494,443</u>	<u>1,314,657</u>
Total Deferred Outflows of Resources	<u>\$ 1,795,442</u>	<u>\$ 1,242,824</u>	<u>\$ 1,194,171</u>	<u>\$ 4,232,437</u>
Deferred Inflows of Resources				
Differences between expected and actual experience	\$31,153	\$15,528	\$16,520	\$63,201
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>2,034</u>	<u>164,391</u>	<u>362,969</u>	<u>529,394</u>
Total Deferred Inflows of Resources	<u>\$33,187</u>	<u>\$179,919</u>	<u>\$379,489</u>	<u>\$592,595</u>

\$1,314,657 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

Year Ending December 31:	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
2018	\$603,073	\$239,183	\$189,740	\$1,031,996
2019	611,278	239,182	189,742	1,040,202
2020	240,560	179,749	126,514	546,823
2021	(20,333)	(54,391)	(122,574)	(197,298)
2022	(608)	(28,278)	(57,881)	(86,767)
Thereafter	<u>(1,281)</u>	<u>(3,188)</u>	<u>(5,302)</u>	<u>(9,771)</u>
Total	<u>\$1,432,689</u>	<u>\$572,257</u>	<u>\$320,239</u>	<u>\$2,325,185</u>

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical view and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

The total pension asset in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 8.25 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Health Annuitant Mortality tables were used, adjusted for mortality improvement back to the observant period base of 2006 and then established the base year as 2015. For females, Health Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

<u>City's proportionate share of the net pension liability/(asset)</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Traditional Pension Plan	\$6,875,607	4,500,558	\$2,521,373
Combined Plan	\$613	(8,536)	(\$15,643)

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, 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, 2016, are presented below:

Valuation Date	January 1, 2016
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 Simple

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. 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, 2016 are summarized below:

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

Asset Class	Target Allocation	10 year Expected Real Rate of Return **	30 year Expected Real Rate of Return **
Cash and Cash Equivalents	-	%	
Domestic Equity	16.00	4.46 %	5.21 %
Non-US Equity	16.00	4.66	5.40
Core Fixed Income *	20.00	1.67	2.37
Global Inflation Protected *	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	120.00 %		

* levered 2x

** numbers are net of expected inflation

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

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 18,538,063	\$ 13,918,703	\$ 10,003,732

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 9: **Defined Benefit Pension Plans** (Continued)

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

Changes Between Measurement Date and Report Date In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

NOTE 10: **Post-Employment Benefits**

A. **Ohio Public Employees Retirement System**

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. The trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, 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 2016 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.

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 for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 10: **Post-Employment Benefits** (Continued)

A. Ohio Public Employees Retirement System (continued)

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.00 percent during calendar year 2017.

As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.00 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 benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0 percent. The City's actual employer contributions for December 31, 2017, 2016 and 2015 which were used to fund post-employment benefits were \$25,579, \$52,654, and \$48,895, respectively; 100 percent has been contributed for 2017, 2016 and 2015.

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 10: **Post-Employment Benefits** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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, 2017 thru December 31, 2017. 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 \$12,912 and \$10,520 for the year ended December 31, 2017, \$12,707 and \$11,061 for the year ended December 31, 2016, and \$12,427 and \$10,893 for the year ended December 31, 2015, respectively. The full amount has been contributed for 2017, 2016 and 2015.

NOTE 11: **Long-Term Obligations**

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2017 was as follows:

	<u>Balance</u> <u>12/31/2016</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
General Obligation Bonds					
2.40% 2013 Various Purpose Bonds	\$ 1,575,000	\$ -	\$ 245,000	\$ 1,330,000	\$ 250,000
2.42% 2015 Park Improvement Bonds	1,570,000	-	105,000	1,465,000	105,000
Total General Obligation Bonds	<u>3,145,000</u>	<u>-</u>	<u>350,000</u>	<u>2,795,000</u>	<u>355,000</u>
OPWC Loans					
0.00% Issue II Loan	98,277	-	8,935	89,342	17,869
0.00% Meadowbrook Sanitary Sewer	130,245	-	6,855	123,390	13,710
0.00% Meadowbrook Rehabilitation Phase II	313,369	-	9,496	303,873	18,992
Total OPWC Loans	<u>541,891</u>	<u>-</u>	<u>25,286</u>	<u>516,605</u>	<u>50,571</u>
Net Pension Liability					
OPERS	3,320,832	1,179,726	-	4,500,558	-
OP&F	14,735,764	-	817,061	13,918,703	-
Total Net Pension Liability	<u>18,056,596</u>	<u>1,179,726</u>	<u>817,061</u>	<u>18,419,261</u>	<u>-</u>
Other Obligations					
SIB Loan	239,954	-	77,615	162,339	77,632
Accrued Compensated Absences	1,191,265	621,834	656,773	1,156,326	477,641
Total Other Obligations	<u>1,431,219</u>	<u>621,834</u>	<u>734,388</u>	<u>1,318,665</u>	<u>555,273</u>
Total Long-Term Liabilities	<u>\$ 23,174,706</u>	<u>\$ 1,801,560</u>	<u>\$ 1,926,735</u>	<u>\$ 23,049,531</u>	<u>\$ 960,844</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 11: **Long-Term Obligations** (Continued)

Principal and interest requirement to retire the long-term debt obligations outstanding at December 31, 2017 were as follows:

Year	Governmental Activities						
	General Obligation Bonds		OPWC Loans	SIB Loan		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2018	\$ 355,000	\$ 67,374	\$ 50,571	\$ 77,632	\$ 4,275	\$ 483,203	\$ 71,649
2019	370,000	58,832	50,571	84,707	1,858	505,278	60,690
2020	380,000	49,930	50,571	-	-	430,571	49,930
2021	385,000	40,788	50,571	-	-	435,571	40,788
2022	400,000	31,525	50,568	-	-	450,568	31,525
2023-2027	630,000	79,622	149,800	-	-	779,800	79,622
2028-2032	275,000	10,043	94,960	-	-	369,960	10,043
2033	-	-	18,993	-	-	18,993	-
Totals	\$ 2,795,000	\$ 338,114	\$ 516,605	\$ 162,339	\$ 6,133	\$ 3,473,944	\$ 344,247

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

On March 20, 2013, the City issued Various Purpose Bonds, Series 2013 of \$2,280,000 with an interest rate of 2.400 percent to retire 2012 General Obligation Bond Anticipation Notes.

On August 27, 2015, the City issued Park Improvement Bonds, Series 2015 of \$1,800,000 with an interest rate of 2.420% percent for the purpose of creating a new public park.

The Ohio Public Works Commission (OPWC) intercommunity sewer project will be paid from the Sewer Replacement "A" Fund. This loan was issued in 2001 for \$330,270 and an additional \$27,105 in 2002. The OPWC Meadowbrook Boulevard loans will be paid from the Issue II fund. The first loan was issued in 2007 for \$274,200 and Phase II loan was issued in 2007 and 2008 for \$379,841 with the first payment in the amount of \$28,488 started in 2014.

State Infrastructure Bank (SIB) Loan payments will be paid from the debt service fund. The loan was issued in 2010 from the Ohio Department of Transportation for the purpose of rebuilding University Parkway. The interest rate is 3 percent.

Compensated absences will be paid by the fund from which the employee's salary is paid. There is no repayment schedule for net pension liability; however, employer pension contributions are made from the General Fund. See Note 9 for further information on Net Pension Liability.

NOTE 12: **Risk Management**

A. **Property and Liability**

The City is exposed to various risk of loss related to torts, theft, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. In October 2008, the City joined the Northern Ohio Risk Management Agency (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. The City pays an annual premium to NORMA for its insurance coverage.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 12: **Risk Management** (Continued)

B. Property and Liability (Continued)

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.

C. Workers' Compensation

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

D. Other

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred. The City continues to carry commercial insurance for other risks of loss, including employees' health and life insurance. Settled claims resulting from these risks, have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13: **Compensated Absences**

Vacation leave is earned at rates which vary depending upon length of service and standard work week. City employees are paid for earned, unused vacation leave at the time of termination of employment if the employees have acquired at least one year of service to the City and has worked at least six months or more during the current calendar year.

Sick leave is earned at the rate of 10 hours to 14 hours for each month worked. Each employee, upon retirement, is paid a portion of the employee's earned unused sick leave balances.

NOTE 14: **Contingencies/Pending Litigation**

A. Grants

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2017.

B. Litigation

The City is party to a few claims and lawsuits. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall position of the City at December 31, 2017.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 15: Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 2,740,000
Street Maintenance Fund	1,000,000	-
Nonmajor Governmental Funds	1,740,000	-
Total	<u>\$ 2,740,000</u>	<u>\$ 2,740,000</u>

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; distribute unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

NOTE 16: Shared Risk Pool

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the cities of Bedford Heights, Chagrin Falls, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, and University Heights. 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 one representative from each of the participating members.

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 \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop-loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2017

NOTE 17: **Accountability**

The Special Revenue Urban Development fund had a fund deficit of \$9,000 at December 31, 2017. The deficit in this fund is due to accrued liabilities. The General fund provides transfers when cash is required, not when accruals occur.

Required Supplementary Information

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

Traditional Plan	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.019819%	0.019172%	0.018785%	0.018785%
City's Proportionate Share of the Net Pension Liability	\$4,500,558	\$3,320,832	\$2,265,681	\$2,214,507
City's Covered-Employee Payroll	\$2,561,983	\$2,386,092	\$2,310,675	\$2,140,177
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	175.67%	139.17%	98.05%	103.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%
Combined Plan	2017	2016	2015	2014
City's Proportion of the Net Pension (Asset)	0.015336%	0.012960%	0.008464%	0.008464%
City's Proportionate Share of the Net Pension (Asset)	(\$8,536)	(\$6,307)	(\$3,259)	(\$888)
City's Covered-Employee Payroll	\$59,692	\$47,158	\$31,175	\$28,877
City's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered Employee Payroll	14.30%	13.37%	10.45%	3.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	116.55%	116.90%	114.83%	104.33%

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

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

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

Police	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.1406477%	0.1097596%	0.1070160%	0.1070160%
City's Proportionate Share of the Net Pension Liability	\$6,744,115	\$7,060,912	\$5,543,875	\$5,212,015
City's Covered-Employee Payroll	\$2,449,568	\$2,491,647	\$2,365,737	\$2,267,622
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	275.32%	283.38%	234.34%	229.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%
Fire	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.1132730%	0.1193031%	0.1219328%	0.1219328%
City's Proportionate Share of the Net Pension Liability	\$7,174,588	\$7,674,852	\$6,316,628	\$5,938,510
City's Covered-Employee Payroll	\$2,137,791	\$2,182,732	\$2,187,919	\$2,190,845
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	335.61%	351.62%	288.70%	271.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions</u>					
Traditional Plan	323,044	307,438	286,331	277,281	278,223
Combined Plan	<u>6,522</u>	<u>7,163</u>	<u>5,659</u>	<u>3,741</u>	<u>3,754</u>
Total Required Contributions	\$329,566	\$314,601	\$291,990	\$281,022	\$281,977
Contributions in Relation to the Contractually Required Contribution	<u>(\$329,566)</u>	<u>(\$314,601)</u>	<u>(\$291,990)</u>	<u>(\$281,022)</u>	<u>(\$281,977)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered-Employee Payroll					
Traditional Plan	\$2,484,954	\$2,561,983	\$2,386,092	\$2,310,675	\$2,140,177
Combined Plan	\$50,169	\$59,692	\$47,158	\$31,175	\$28,877
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>					
Traditional Plan	13.00%	12.00%	12.00%	12.00%	13.00%
Combined Plan	13.00%	12.00%	12.00%	12.00%	13.00%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Contractually Required Contributions</u>										
Police	\$490,648	\$465,418	\$473,413	\$449,490	\$356,697	\$297,057	\$315,539	\$312,693	\$300,570	\$293,880
Fire	<u>\$494,443</u>	<u>\$502,381</u>	<u>\$512,942</u>	<u>\$514,161</u>	<u>\$443,208</u>	<u>\$392,577</u>	<u>\$413,498</u>	<u>\$400,667</u>	<u>\$388,210</u>	<u>\$402,047</u>
Total Required Contributions	\$985,091	\$967,799	\$986,355	\$963,651	\$799,905	\$689,634	\$729,037	\$713,360	\$688,780	\$695,927
Contributions in Relation to the Contractually Required Contribution	<u>(\$985,091)</u>	<u>(\$967,799)</u>	<u>(\$986,355)</u>	<u>(\$963,651)</u>	<u>(\$799,905)</u>	<u>(\$689,634)</u>	<u>(\$729,037)</u>	<u>(\$713,360)</u>	<u>(\$688,780)</u>	<u>(\$695,927)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>										
Police	\$2,582,358	\$2,449,568	\$2,491,647	\$2,365,737	\$2,267,622	\$2,329,859	\$2,474,816	\$2,452,494	\$2,357,412	\$2,304,941
Fire	\$2,104,013	\$2,137,791	\$2,182,732	\$2,187,919	\$2,190,845	\$2,275,809	\$2,397,090	\$2,322,707	\$2,250,493	\$2,330,707
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	[1]	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 University Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2017

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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

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Ohio Society of Certified Public Accountants

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

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

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered a material weakness as item **2017-001**.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of This Report

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



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

October 30, 2018

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding 2017-001 – Material Weakness – Cash Reconciliation

Condition/Criteria

During our audit of the cash function for the city, we noted the following:

- The City did not reconcile cash timely and the reconciliations were not approved by Council. In addition, we noted various errors in recording of revenue and disbursements, which were identified by the City but still not corrected as of the opinion date.
- The City did not keep a running outstanding check list from month to month during 2017.
- The City had immaterial errors on the bank reconciliations that resulted in a difference between the book and bank balances.

Upon completion of our cash reconciliation audit procedure, the reconciling difference was \$96,213, which was adjusted on the accrual basis financial statements.

Cause/Effect

The above noted errors were attributable to changes in the Finance Director position. The bank reconciliations were not prepared or reviewed timely by the City.

Recommendation

We recommend the City reconcile cash on a timely basis with proper approvals. By not reconciling cash on a monthly basis, there are more possibilities that errors or other problems might not be recognized or resolved on a timely basis.

City Response

There has been a complete turnover of the Finance Department staff since the end of the fiscal year under audit. During 2018, the City expanded the Finance Department staff to enable more timely completion of accounting functions. The new Finance Department staff has been preparing bank reconciliations after the fact for past months since January 1, 2017. As of the audit opinion date, these after the fact bank reconciliations are completed through June 2018.

Starting with August 2018, the Finance Department has been preparing timely monthly bank reconciliations. As part of the bank reconciliation process used since August 2018, the Finance Department has been able to generate outstanding check lists each month.

As part of the changeover of the Finance Department staff, monthly financial reports have been created starting with August 2018. The bank reconciliations are part of these monthly financial reports. Going forward, these monthly financial reports will be submitted to City Council.

Posting of journal entries to the accounting system needed to resolve reconciling differenced noted during the 2017 audit, as well as any other prior period reconciling items, will be posted to the accounting system after the 2018 audit in order to ensure bank reconciliations are current and have been reviewed.

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

The prior audit report, as of December 31, 2016, included no findings. Management letter recommendations have been repeated, corrected, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

CITY OF UNIVERSITY 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
DECEMBER 4, 2018**