

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

**AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**

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



OHIO AUDITOR OF STATE  
KEITH FABER



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Members 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, 2018 through December 31, 2018. 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.

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Keith Faber  
Auditor of State  
Columbus, Ohio

October 7, 2019

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**CITY OF UNIVERSITY HEIGHTS  
CUYAHOGA COUNTY, OHIO  
AUDIT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	5-13
Basic Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet – Governmental Funds	17
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund	21
Schedule of Fiduciary Net Position – Fiduciary Funds	22
Notes to the Basic Financial Statements	23-69
Required Supplementary Information:	
Schedule of the City’s Proportionate Share of the Net Pension Liability – Ohio Public Employee Retirement System – Traditional Plan	71
Schedule of the City’s Proportionate Share of the Net Pension Asset – Ohio Public Employee Retirement System – Combined Plan	72
Schedule of the City’s Proportionate Share of the Net Pension Liability – Ohio Police and Fire Fund	73
Schedule of the City Pension Contributions – Ohio Public Employee Retirement System – Traditional Plan	74
Ohio Public Employee Retirement System – Combined Plan	75
Ohio Police and Fire Pension Fund	76
Schedule of the City’s Proportionate Share of the Net OPEB Liability Ohio Public Employee Retirement System	77
Ohio Police and Fire Pension Fund	78
Schedule of the City OPEB Contributions – Ohio Public Employee Retirement System	79
Ohio Police and Fire Pension Fund	80
Notes to the Required Supplementary Information	81
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	82-83
Schedule of Findings and Responses	84-85
Schedule of Prior Year Audit Findings and Recommendations	86

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

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**INDEPENDENT AUDITOR'S REPORT**

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

The Honorable Keith Faber  
Auditor of State  
State of Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2018, 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, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in Note 3 to the basic financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City also restated its capital assets as of December 31, 2017. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

August 23, 2019

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**City of University Heights, Ohio**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

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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, 2018. 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 2018 are as follows:

- The liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$2,280,509.
- The net position increased by \$1,025,269 from the prior year. Total assets and deferred outflows of resources increased by \$1,950,129 and liabilities and deferred inflows of resources increased by \$924,860.
- The total fund balance for the General Fund was \$4,620,144, a decrease of \$147,523 from prior year.
- During 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, which resulted in a restatement of the net position of the governmental activities. After performing a review of the City's capital assets, it was determined that a restatement was needed during 2018.

**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, 2018**

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***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 17 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 22 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 24 of this report.

**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.

**City of University Heights, Ohio**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

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 2018 as compared to 2017.

Table 1 - Net Position

	Governmental Activities	
	2018	Restated 2017
Assets:		
Current and other assets	\$ 21,712,485	\$ 20,795,422
Net pension asset	16,674	8,536
Capital assets	<u>12,355,940</u>	<u>11,034,002</u>
Total assets	<u>34,085,099</u>	<u>31,837,960</u>
Deferred outflow of resources:		
Pension	2,636,802	4,232,437
OPEB	<u>1,348,318</u>	<u>49,693</u>
Total deferred outflow of resources	<u>3,985,120</u>	<u>4,282,130</u>
Liabilities:		
Current and other liabilities	1,543,867	1,242,299
Long-term liabilities:		
Due within one year	875,493	960,844
Due in more than one year:		
Net pension liability	16,028,955	18,419,261
Net OPEB liability	14,035,188	12,361,768
Other amounts	<u>2,748,320</u>	<u>3,669,426</u>
Total liabilities	<u>35,231,823</u>	<u>36,653,598</u>
Deferred inflows of resources:		
Property taxes	2,459,625	2,179,675
Pension	2,024,095	592,595
OPEB	<u>635,185</u>	<u>-</u>
Total deferred inflows of resources	<u>5,118,905</u>	<u>2,772,270</u>
Net position:		
Net investment in capital assets	8,884,070	7,560,058
Restricted	7,283,745	6,133,089
Unrestricted	<u>(18,448,324)</u>	<u>(16,998,925)</u>
Total net position	<u>\$ (2,280,509)</u>	<u>\$ (3,305,778)</u>

**City of University Heights, Ohio**  
**Management’s Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

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The net pension liability (NPL) is one of the larger liabilities reported by the City at December 31, 2018 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For 2018, the City adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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/OPEB, the net pension/OPEB liability to the reported net position and subtracting deferred outflows related to pension/OPEB and the net pension asset.

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

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

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

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

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

**City of University Heights, Ohio**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

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

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

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred outflows/inflows of resources related to OPEB on the accrual basis of accounting. This implementation, as well as the restatement for capital assets, had the effect of restating net position at December 31, 2017, from \$10,552,906 to a deficit balance of \$3,305,778 for governmental activities.

A portion of the City's net position reflects its net investment in capital assets. Capital assets include construction in progress, land, buildings and improvements, vehicles, equipment, and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2018, was \$8,884,070. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net position, \$7,283,745 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, 2018**

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,873,693	\$ 1,409,483
Operating grants and contributions	323,760	351,134
Capital grants and contributions	1,829,797	1,079,738
General revenues:		
Property taxes	2,843,949	3,067,597
Municipal income taxes	10,215,413	10,027,918
Payments in lieu of taxes	9,000	724,269
Other taxes	135,291	143,987
Grants and entitlements	527,296	595,683
Investment income	127,799	69,524
Gain on sale of capital assets	-	17,258
All other revenue	<u>502,640</u>	<u>240,908</u>
Total revenues	<u>18,388,638</u>	<u>17,727,499</u>
Program expenses:		
Security of persons and property	9,346,275	9,187,082
Public health and welfare	58,489	53,073
Leisure time activities	284,831	351,769
Community development	746,560	1,625,405
Basic utility services	2,449,473	1,993,234
Transportation	411,326	1,682,672
General government	3,996,738	1,842,305
Interest and fiscal charges	<u>69,677</u>	<u>81,055</u>
Total program expenses	<u>17,363,369</u>	<u>16,816,595</u>
Change in net position	1,025,269	910,904
Net position, beginning of year, restated	<u>(3,305,778)</u>	n/a
Net position, end of year	<u>\$ (2,280,509)</u>	<u>\$ (3,305,778)</u>

Total revenues increased mainly due to increases in capital grants and contributions. The capital grants and contributions are up as the City received a grant from the City of Cleveland for a water line project that was not received in 2017 as well as a roadway matching program grant in 2018.

The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2018, the income tax revenue was \$10,215,413. Another major revenue source is property taxes. The effective tax rate for 2018 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 2018, the property tax revenue was \$2,843,949.

**City of University Heights, Ohio**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

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Total program expenses increased by \$546,774 in 2018 when compared to 2017. This increase can mainly be attributed to the implementation of GASB Statement No. 75 as the OBEB expense calculated in accordance with GASB Statement No 75 is up almost \$1 million.

Expenses are categorized by functions. The largest program expense, security of persons and property, includes police, fire, police and fire communications, traffic control, animal control, and public safety, was over 50% of the total governmental expenses. Over \$1 million of these expenses are a result of the pension and OPEB expenses related to the Ohio Police and Fire Pension system.

### **The City's Funds**

Information about the City's funds starts on page 17. 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 \$9,060,735, an increase of \$44,020 in comparison with the prior year. Of this fund balance, \$4,042,518 of the ending combined fund balance for 2018 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 2018, total fund balance for the General Fund was \$4,620,144. The General Fund balance decreased by \$147,523 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 \$16,385,412 and \$16,564,556, respectively. The actual charges to appropriations (expenditures) were \$2,262,669 below the final budgeted amount for the General Fund mostly due to the operating efficiencies.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

At the end of 2018, the City of University Heights had \$12,355,940 invested in a broad range of capital assets, including land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. During 2018, the City also performed an analysis of the capital assets resulting in a restatement of the beginning balance. See Note 3 for additional information on the restatement.

**City of University Heights, Ohio**  
**Management’s Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

Table 3 shows fiscal 2018 balances of capital assets as compared to 2017:

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>Restated 2017</u>
Land	\$ 774,054	\$ 810,154
Construction-in-progress	746,587	-
Buildings and improvements	907,037	811,069
Vehicles	2,443,133	1,723,089
Equipment	151,205	527,682
Infrastructures:		
Pavement	6,139,724	5,942,115
Traffic lights	41,267	43,496
Storm sewers	154,976	157,855
Sanitary sewers	<u>997,957</u>	<u>1,018,542</u>
Total capital assets	<u>\$ 12,355,940</u>	<u>\$ 11,034,002</u>

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.

More detailed information about the City’s capital assets is presented in Note 8 to the financial statements.

*Debt*

At December 31, 2018, the City of University Heights had \$2,963,128 in outstanding debt, of which \$2,440,000 was in general obligation bonds. Table 4 summarizes the outstanding debt obligations of the City.

Table 4 – Outstanding Debt at December 31

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
General obligation bonds	\$ 2,440,000	\$ 2,795,000
OPWC loans	440,750	516,605
SIB loan	<u>82,378</u>	<u>162,339</u>
Total outstanding debt	<u>\$ 2,963,128</u>	<u>\$ 3,473,944</u>

The City paid \$250,000 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

**City of University Heights, Ohio**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended December 31, 2018**

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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 \$79,961 on principal for the State Infrastructure Bank Loan for reconstruction of University Parkway.

Other obligations include net pension/OPEB 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 2019 budget, the City has addressed staffing shortages, in particular in the Fire Department and Police Department. The City expects its budgetary constraints to continue. The City continues to seek out grant funding. To maintain the integrity of the budget in 2020 and beyond, the City is preparing a five-year budget forecast concurrent with the preparation of the 2020 budget. The City Administration recognizes the need for long-term financial planning in order to adapt to changes in the financial environment of our region. This long-term financial planning will enable the City to cope with reduced payroll withholding income tax revenues that will result from the closing of Wiley Middle School at the end of the Cleveland Heights-University Heights City School District 2018-2019 school year.

**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 Finance Director James Goffe at 2300 Warrensville Center Road, University Heights, Ohio 44118.

## *Basic Financial Statements*

# City of University Heights, Ohio

## Statement of Net Position

**December 31, 2018**

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 8,337,105
Materials and supplies inventory	275,239
Accounts receivable	163,588
Accrued interest receivable	25,934
Intergovernmental receivable	768,974
Prepaid items	216,894
Income taxes receivable	4,204,209
Property and other taxes receivable	6,710,340
Special assessments receivable	1,010,202
Net pension asset	16,674
Nondepreciable capital assets	1,520,641
Depreciable capital assets	<u>10,835,299</u>
Total assets	<u>34,085,099</u>
Deferred outflows of resources:	
Pension	2,636,802
OPEB	<u>1,348,318</u>
Total deferred outflows of resources	<u>3,985,120</u>
Liabilities:	
Accounts payable	919,783
Accrued wages and benefits	414,279
Intergovernmental payable	204,902
Accrued interest payable	4,903
Long-term liabilities:	
Due within one year	875,493
Due in more than one year:	
Net pension liability	16,028,955
Net OPEB liability	14,035,188
Other amounts due in more than one year	<u>2,748,320</u>
Total liabilities	<u>35,231,823</u>
Deferred inflows of resources:	
Property taxes	2,459,625
Pension	2,024,095
OPEB	<u>635,185</u>
Total deferred inflows of resources	<u>5,118,905</u>
Net position:	
Net investment in capital assets	8,884,070
Restricted for:	
Debt services	811,680
Capital projects	1,622,371
Sewer maintenance	1,995,180
Community development	706,191
Street maintenance and lighting	1,697,951
Other purposes	450,372
Unrestricted	<u>(18,448,324)</u>
Total net position	<u>\$ (2,280,509)</u>

See accompanying notes to the basic financial statements

# City of University Heights, Ohio

## Statement of Activities

### For the Year Ended December 31, 2018

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Primary government:					
Governmental activities:					
Security of persons and property	\$ 9,346,275	\$ 389,600	\$ 3,790	\$ -	\$ (8,952,885)
Public health and welfare	58,489	-	-	-	(58,489)
Leisure time activities	284,831	104,002	-	-	(180,829)
Community development	746,560	371,425	-	-	(375,135)
Basic utility services	2,449,473	631,603	-	1,252,531	(565,339)
Transportation	411,326	-	319,970	391,330	299,974
General government	3,996,738	377,063	-	185,936	(3,433,739)
Interest and fiscal charges	<u>69,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69,677)</u>
Total governmental activities	\$ <u>17,363,369</u>	\$ <u>1,873,693</u>	\$ <u>323,760</u>	\$ <u>1,829,797</u>	<u>(13,336,119)</u>
General revenues:					
Property taxes					2,843,949
Payments in lieu of taxes					9,000
Municipal income taxes					10,215,413
Other taxes					135,291
Grants and entitlements not restricted to specific programs					527,296
Investment income					127,799
All other revenues					<u>502,640</u>
Total general revenues					<u>14,361,388</u>
Change in net position					1,025,269
Net position, beginning of year, restated					<u>(3,305,778)</u>
Net position, end of year					\$ <u>(2,280,509)</u>

See accompanying notes to the basic financial statements

# City of University Heights, Ohio

## Balance Sheet Governmental Funds

**December 31, 2018**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 3,226,012	\$ 5,111,093	\$ 8,337,105
Materials and supplies inventory	97,051	178,188	275,239
Accrued interest receivable	25,934	-	25,934
Accounts receivable	163,588	-	163,588
Intergovernmental receivable	357,273	411,701	768,974
Prepaid items	212,304	4,590	216,894
Income taxes receivable	3,994,056	210,153	4,204,209
Property and other taxes receivable	5,378,307	1,332,033	6,710,340
Interfund receivable	309,129	-	309,129
Special assessments receivable	37,796	972,406	1,010,202
Total assets	<u>\$ 13,801,450</u>	<u>\$ 8,220,164</u>	<u>\$ 22,021,614</u>
<b>Liabilities:</b>			
Accounts payable	\$ 237,343	\$ 682,440	\$ 919,783
Accrued wages and benefits	396,639	17,640	414,279
Intergovernmental payable	200,453	4,449	204,902
Interfund payable	-	309,129	309,129
Total liabilities	<u>834,435</u>	<u>1,013,658</u>	<u>1,848,093</u>
<b>Deferred inflows of resources:</b>			
Property taxes	1,959,934	499,691	2,459,625
Unavailable revenue	<u>6,386,937</u>	<u>2,266,224</u>	<u>8,653,161</u>
Total deferred inflows of resources	<u>8,346,871</u>	<u>2,765,915</u>	<u>11,112,786</u>
<b>Fund balances:</b>			
Nonspendable	309,355	182,778	492,133
Restricted	-	4,526,084	4,526,084
Assigned	1,496,166	-	1,496,166
Unassigned	<u>2,814,623</u>	<u>(268,271)</u>	<u>2,546,352</u>
Total fund balances	<u>4,620,144</u>	<u>4,440,591</u>	<u>9,060,735</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,801,450</u>	<u>\$ 8,220,164</u>	<u>\$ 22,021,614</u>

See accompanying notes to the basic financial statements

# City of University Heights, Ohio

## Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities

**December 31, 2018**

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Total governmental funds balances \$ 9,060,735

*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. 12,355,940

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		2,653,914
Intergovernmental		621,000
Special assessments		1,010,202
Investment income		14,797
Other taxes		20,580
Charges for services		<u>106,929</u>

Total 8,653,161

In the Statement of Activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (4,903)

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

Deferred outflows – pension		2,636,802
Deferred inflows – pension		(2,024,095)
Net pension liability		(16,028,955)
Net pension asset		<u>16,674</u>

Total (15,399,574)

The net OPEB liability is not due in the current period; therefore, the liability and related deferred outflows/inflows are not reported in governmental funds.

Deferred outflows – OPEB		1,348,318
Deferred inflows – OPEB		(635,185)
Net OPEB liability		<u>(14,035,188)</u>

Total (13,322,055)

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		(2,440,000)
OPWC loans		(440,750)
SIB loan		(82,378)
Compensated absences		<u>(660,685)</u>

Total (3,623,813)

*Net position of governmental activities* \$ (2,280,509)

# City of University Heights, Ohio

## Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

**For the Year Ended December 31, 2018**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 2,269,672	\$ 574,277	\$ 2,843,949
Municipal income taxes	9,571,247	557,108	10,128,355
Payments in lieu of taxes	-	9,000	9,000
Other taxes	134,770	-	134,770
Intergovernmental	643,277	1,985,372	2,628,649
Interest	113,002	-	113,002
Licenses and permits	371,662	-	371,662
Fines and forfeitures	110,340	392	110,732
Charges for services	363,840	528	364,368
Special assessments	36,586	848,387	884,973
All other revenues	<u>402,680</u>	<u>107,169</u>	<u>509,849</u>
Total revenues	<u>14,017,076</u>	<u>4,082,233</u>	<u>18,099,309</u>
Expenditures:			
Security of persons and property	7,342,917	1,216,823	8,559,740
Public health and welfare	58,489	-	58,489
Leisure time activities	276,467	58,473	334,940
Community development	676,705	44,495	721,200
Basis utility services	1,202,304	1,099,061	2,301,365
Transportation	53,523	1,684,440	1,737,963
General government	2,770,194	988,976	3,759,170
Debt service:			
Principal retirement	-	510,816	510,816
Interest and fiscal charges	<u>-</u>	<u>71,606</u>	<u>71,606</u>
Total expenditures	<u>12,380,599</u>	<u>5,674,690</u>	<u>18,055,289</u>
Excess of revenues over (under) expenditures	<u>1,636,477</u>	<u>(1,592,457)</u>	<u>44,020</u>
Other financing sources (uses):			
Transfer in	-	1,784,000	1,784,000
Transfer out	<u>(1,784,000)</u>	<u>-</u>	<u>(1,784,000)</u>
Total other financing sources (uses)	<u>(1,784,000)</u>	<u>1,784,000</u>	<u>-</u>
Net change in fund balances	(147,523)	191,543	44,020
Fund balances, beginning of year	<u>4,767,667</u>	<u>4,249,048</u>	<u>9,016,715</u>
Fund balances, end of year	\$ <u>4,620,144</u>	\$ <u>4,440,591</u>	\$ <u>9,060,735</u>

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, 2018

Net change in fund balances – total governmental funds \$ 44,020

*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 outlays exceeded depreciation in the current period.

Capital outlay	\$	2,280,875	
Depreciation		<u>(875,729)</u>	
Total			1,405,146

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. (83,208)

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

Municipal income taxes		87,058	
Intergovernmental		216,225	
Special assessments		(39,879)	
Investment income		14,797	
Other taxes		521	
Charges for services		<u>10,874</u>	
Total			289,596

Repayment of various debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 510,816

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 1,432,886

Except for amounts reported as deferred outflows/inflows, changes in the net pension and net OPEB liabilities are reported as pension and OPEB expenses in the Statement of Activities. (3,071,557)

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		495,641	
Accrued interest		<u>1,929</u>	
Total			<u>497,570</u>

*Change in net position of governmental activities* \$ 1,025,269

See accompanying notes to the basic financial statements

# City of University Heights, Ohio

## Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund

### For the Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,269,672	\$ (30,328)
Municipal income taxes	10,176,000	10,176,000	9,717,037	(458,963)
Other taxes	135,000	135,000	158,314	23,314
Licenses and permits	346,100	346,100	382,328	36,228
Fines and forfeitures	151,350	151,350	106,364	(44,986)
Special assessments	38,000	38,000	36,586	(1,414)
Charges for services	402,040	402,040	352,507	(49,533)
Intergovernmental	803,600	803,600	651,196	(152,404)
Interest	87,000	87,000	110,146	23,146
All other revenues	<u>384,000</u>	<u>384,000</u>	<u>400,768</u>	<u>16,768</u>
Total revenues	<u>14,823,090</u>	<u>14,823,090</u>	<u>14,184,918</u>	<u>(638,172)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Security of persons and property	8,129,898	8,150,504	7,076,540	1,073,964
Public health and welfare	54,000	58,489	58,489	-
Leisure time activities	299,553	322,156	272,815	49,341
Community development	833,216	725,811	639,650	86,161
Basic utility services	1,443,415	1,443,415	1,218,494	224,921
Transportation	484,151	90,394	61,468	28,926
General government	<u>2,401,179</u>	<u>3,680,658</u>	<u>2,881,302</u>	<u>799,356</u>
Total expenditures	<u>13,645,412</u>	<u>14,471,427</u>	<u>12,208,758</u>	<u>2,262,669</u>
Excess of revenues over expenditures	<u>1,177,678</u>	<u>351,663</u>	<u>1,976,160</u>	<u>1,624,497</u>
<b>Other financing sources (uses):</b>				
Sale of fixed assets	-	-	83	83
Transfers out	(2,740,000)	(1,784,000)	(1,784,000)	-
Advances out	<u>-</u>	<u>(309,129)</u>	<u>(309,129)</u>	<u>-</u>
Total other financing sources and uses	<u>(2,740,000)</u>	<u>(2,093,129)</u>	<u>(2,093,046)</u>	<u>83</u>
Net change in fund balance	(1,562,322)	(1,741,466)	(116,886)	1,624,580
Fund balances, beginning	<u>3,401,091</u>	<u>3,401,091</u>	<u>3,401,091</u>	<u>-</u>
Fund balances, ending	\$ <u>1,838,769</u>	\$ <u>1,659,625</u>	\$ <u>3,284,205</u>	\$ <u>1,624,580</u>

See accompanying notes to the basic financial statements

# City of University Heights, Ohio

## Schedule of Fiduciary Net Position Fiduciary Funds

**December 31, 2018**

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	<u>Agency Funds</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>302,515</u>
Total assets	\$ <u><u>302,515</u></u>
Liabilities:	
Accounts payable	\$ 174
Deposits held and due to others	<u>302,341</u>
Total liabilities	\$ <u><u>302,515</u></u>

See accompanying notes to the basic financial statements

*Notes to the Basic Financial Statements*

# City of University Heights, Ohio

## Notes to the Basic Financial Statements

### **For the Year Ended December 31, 2018**

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#### **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.

The City is associated with two organizations which are defined as a shared risk pool and a jointly governed organization. The Northern Ohio Management Association is a shared risk pool and the Northeast Ohio Public Energy Council is a jointly governed organization. The shared risk pool is presented in Note 16 and the jointly governed organization is presented in Note 20 to the basic financial statements.

#### **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, 2018**

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### **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.

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Fund Accounting (continued)**

##### *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 flow of 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 economic resources measurement focus.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **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 and other postemployment benefits (OPEB). The deferred outflows of resources related to pension and OPEB are explained in Notes 9 and 10, respectively.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **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, OPEB and unavailable revenues.

Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance year 2019 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 and OPEB are reported on the government-wide statement of net position. (See Notes 9 and 10).

#### *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. In 2018, encumbrances (e.g., purchase orders and contracts) outstanding at year end lapsed and reverted to the respective fund from which it was originally appropriated and will become subject to future appropriations. This accounting policy was used for 2018 as the City transitioned to a new accounting system in 2019.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **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 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."

During 2018, 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 2018, 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 2018, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2018 amounted to \$113,002, which includes \$69,276 assigned from other funds. GASB Statement No. 31 requires the change in fair value to be reported as revenue. During 2018, the change in fair value decreased the City's total investments by \$58,193.

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, 2018, 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, 2018**

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### **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 acquisition value as of the date received. The City maintains a capitalization threshold of \$10,000, effective January 1, 2018. Prior to January 1, 2018, the City used a capitalization threshold of \$5,000. 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	15-40 years
Equipment	5-20 years
Vehicles	5-25 years
Infrastructure	20-80 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, 2018**

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### **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, 2018.

#### **M. Pensions/OPEB**

For purposes of measuring the net pension and OPEB liabilities, net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the pension and OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension and OPEB plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension and OPEB plans 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 or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **N. Fund Balance (continued)**

*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

*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 \$7,283,745 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.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **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.

#### **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 2018.

#### **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 and Restatement of Net Position**

#### **A. Changes in Accounting Principles**

In 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 86, seeks to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions involved in the extinguishment of debt including, prepaid insurance and note disclosures for in-substance defeasance of debt. Implementation of this standard has had no effect on the City's financial statements or disclosures.

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense. The implementation of this standard resulted in the City restating the net position of the governmental activities.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### Note 3: Changes in Accounting Principles and Restatement of Net Position (continued)

#### B. Restatement of Net Position

During 2018, the City restated the net position of the governmental activities as a result of implementing GASB Statement No. 75 and to correct the capital assets balance as of December 31, 2017.

	<u>Governmental Activities</u>
Net position at December 31, 2017, as previously reported	\$ 10,552,906
Deferred outflow – payments subsequent to measurement date	49,693
Net OPEB liability	(12,361,768)
Capital assets	<u>(1,546,609)</u>
Restated net position at December 31, 2017	\$ <u><u>(3,305,778)</u></u>

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

### Note 4: 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:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:			
Inventories	\$ 97,051	\$ 178,188	\$ 275,239
Prepaid items	<u>212,304</u>	<u>4,590</u>	<u>216,894</u>
Total nonspendable	<u>309,355</u>	<u>182,778</u>	<u>492,133</u>

(continued)

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### Note 4: Fund Balances (continued)

	General Fund	Other Governmental Funds	Total
Restricted:			
Streets and highways	-	662,239	662,239
Law enforcement and fire safety	-	167,927	167,927
Sewers	-	1,493,179	1,493,179
Street lighting	-	52,570	52,570
Tree improvement	-	541,118	541,118
Community	-	41,635	41,635
Energy projects	-	39,178	39,178
General bond retirement	-	153,951	153,951
Capital improvements	-	1,374,287	1,374,287
Total restricted	<u>-</u>	<u>4,526,084</u>	<u>4,526,084</u>
Assigned:			
Fiscal year 2019 appropriations	<u>1,496,166</u>	<u>-</u>	<u>1,496,166</u>
Total assigned	<u>1,496,166</u>	<u>-</u>	<u>1,496,166</u>
Unassigned	<u>2,814,623</u>	<u>(268,271)</u>	<u>2,546,352</u>
Total fund balance	\$ <u>4,620,144</u>	\$ <u>4,440,591</u>	\$ <u>9,060,735</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).

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### **Note 5: Budgetary Basis of Accounting (continued)**

#### Net Change in Fund Balance

	<u>General</u>
GAAP basis	\$ (147,523)
Increase (decrease) due to:	
Revenue accruals	167,925
Expenditure accruals	171,841
Advances out	<u>(309,129)</u>
Budgetary basis	<u>\$ (116,886)</u>

### **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;
4. Investment grade obligations of state and local governments, and public authorities;

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 6: Deposits and Investments (continued)**

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 \$250 in undeposited cash on hand, which is included on the balance sheet of the City as part of equity in pooled cash and cash equivalents.

#### 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.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by establishing and pledging to the Treasurer of State a single pool of collateral for the benefit of every public depositor. The total market value of the securities pledged must meet either of the following:

One hundred two percent of the total amount of all uninsured public deposits; or

An amount determined by rules adopted by the treasurer of state that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository.

At year-end, the carrying amount of the City's deposits was \$1,489,131, and the bank balance was \$1,902,048. Of the bank balance, \$500,028 was covered by federal depository insurance. The remaining uncovered balance was collateralized through the Ohio Pooled Collateral System.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### 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, 2018, the city had the following investments:

Investment type:	Measurement Value	Investment Maturities (in Years)	
		<1	1-5
Money market mutual fund	\$ 2,863	\$ 2,863	\$ -
Negotiable CD's	2,140,309	1,409,068	731,241
U.S. agencies	5,007,053	-	5,007,053
STAR Ohio	14	14	-
Total investments	\$ <u>7,150,239</u>	\$ <u>1,411,945</u>	\$ <u>5,738,294</u>

The City categorizes 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 City has the following recurring fair value measurements as of December 31, 2018:

- Negotiable certificates of deposit and U.S. agencies are measured based on Level 2 inputs, using a matrix or model pricing method.
- Money market is based on Level 1 inputs and is valued at amortized costs, which approximates fair value.
- STAR Ohio is valued at amortized cost. At December 31, 2018, the average days to maturity was 44.9.

*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 five years.

*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 entire balance of the negotiable certificates of deposit is covered by FDIC insurance.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 6: Deposits and Investments (continued)**

*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. The City's investment in STAR Ohio carries an "AAAm" money market rating by Standard & Poor's and the U.S. agencies carry a rating of AA+ by Standard & Poor's. The negotiable certificate of deposits and money market are unrated.

*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. The following is the City's allocation as of December 31, 2018:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Negotiable CD's	30%
U.S. agencies	70%

### **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 2018 for real and public utility property taxes represents collections for 2017 taxes. Property tax payments received during 2018 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 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 2018 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.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 7: Receivables (continued)

#### A. Property Taxes (continued)

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, 2018 was \$13.20. The assessed values of real and public utility property upon which 2018 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>
Residential/agricultural	\$ 211,027,830
Commercial/industrial	31,319,230
Public utility	<u>3,791,550</u>
Total	\$ <u>246,138,610</u>

#### B. Income Taxes

The City levies municipal income tax of 2.5% 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 1.0% 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 to the General Fund (95%) and the Capital Improvements Fund (5%).

#### C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Revenue Description</u>	<u>Amount</u>
Local government	\$ 188,495
Homestead and rollback	200,700
Gasoline and auto registration tax	174,473
Permissive tax	5,186
Grants	185,120
Miscellaneous	<u>15,000</u>
Total	\$ <u>768,974</u>

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### Note 8: Capital Assets

Capital asset activity for government the year ended December 31, 2018, was as follows:

	Restated Balance <u>12/31/2017</u>	Additions & <u>Transfers</u>	Deletions & <u>Transfers</u>	Balance <u>12/31/2018</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 810,154	\$ 1,400	\$ (37,500)	\$ 774,054
Construction in progress	<u>-</u>	<u>746,587</u>	<u>-</u>	<u>746,587</u>
Total non-depreciable assets	<u>810,154</u>	<u>747,987</u>	<u>(37,500)</u>	<u>1,520,641</u>
Capital assets, being depreciated:				
Buildings and improvements	2,271,653	195,781	(192,919)	2,274,515
Vehicles	2,693,342	1,433,766	-	4,127,108
Equipment	1,838,244	47,792	(910,329)	975,707
Infrastructure:				
Pavement	9,712,223	736,790	-	10,449,013
Traffic lights	44,588	-	-	44,588
Storm sewers	230,271	-	-	230,271
Sanitary sewers	<u>1,235,057</u>	<u>-</u>	<u>-</u>	<u>1,235,057</u>
Total capital assets, being depreciated	<u>18,025,378</u>	<u>2,414,129</u>	<u>(1,103,248)</u>	<u>19,336,259</u>
Less accumulated depreciation:				
Building and improvements	(1,460,584)	(71,020)	164,126	(1,367,478)
Vehicles	(970,253)	(713,722)	-	(1,683,975)
Equipment	(1,310,562)	(59,329)	545,389	(824,502)
Infrastructure:				
Pavement	(3,770,108)	(539,181)	-	(4,309,289)
Traffic lights	(1,092)	(2,229)	-	(3,321)
Storm sewers	(72,416)	(2,879)	-	(75,295)
Sanitary sewers	<u>(216,515)</u>	<u>(20,585)</u>	<u>-</u>	<u>(237,100)</u>
Total accumulated depreciation	<u>(7,801,530)</u>	<u>(1,408,945)</u>	<u>709,515</u>	<u>(8,500,960)</u>
Total capital assets being depreciated, net	<u>10,223,848</u>	<u>1,005,184</u>	<u>(393,733)</u>	<u>10,835,299</u>
Governmental activities capital assets, net	\$ <u>11,034,002</u>	\$ <u>1,753,171</u>	\$ <u>(431,233)</u>	\$ <u>12,355,940</u>

Depreciation expense was charged to governmental activities as follows:

Security of persons and property	\$ 98,191
Leisure time activities	37,224
Community development	8,136
Basic utility services	90,827
Transportation	601,159
General government	<u>40,192</u>
	\$ <u>875,729</u>

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 8: Capital Assets (continued)**

Included in the capital assets activity on the prior page are transfers between asset classifications, including transfers from equipment to buildings and improvements (cost of \$195,781 and accumulated depreciation of \$14,390) and equipment to vehicles (cost of \$685,460 and accumulated depreciation of \$518,826)

### **Note 9: Defined Benefit Pension Plans**

#### **A. Net Pension/OPEB Liability**

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

The net pension/OPEB liabilities represents the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting 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/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68 and 75 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). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits including primarily health care. In most cases, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium.

State statute requires the retirement systems to amortize unfunded pension/OPEB liabilities within 30 years. If the pension/OPEB amortization period exceeds 30 years, each retirement system's board must propose corrective action to the state legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 10 for the required OPEB disclosures.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 9: Defined Benefit Pension Plans (continued)

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

Plan Description - City employees, other than full-time police and fire, 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, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 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. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (see OPERS CAFR referenced above for additional information):

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 9: Defined Benefit Pension Plans (continued)**

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

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 retiring under the Traditional pension plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided on the member's base benefit. 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% 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%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan.

The Combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the Traditional pension plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Benefits in the Combined plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional pension plan.

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. 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% 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%.

Additionally, a death benefit of \$500 – \$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Combined plan.

The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS CAFR referenced above for additional information):

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 9: Defined Benefit Pension Plans (continued)

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

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Formula:</b> 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Formula:</b> 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

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

**Funding Policy** – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10% of covered payroll for members in the state and local classifications. The actual contribution rates match the limits.

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2018. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2018, the City's contractually required contribution, net of postemployment health care benefits, was \$359,226. Of this amount, \$52,690 is reported as intergovernmental payable at December 31, 2018.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 9: Defined Benefit Pension Plans (continued)**

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

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

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% 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 provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 19.5% of covered payroll for police employer units and 24.0% for fire employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 12.25% of covered payroll for police and fire. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0.5% for 2018. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### Note 9: Defined Benefit Pension Plans (continued)

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

In 2018, the City's contractually required contribution, net of postemployment health care benefits, was \$1,047,832. Of this amount, \$148,788 is reported as intergovernmental payable at December 31, 2018.

#### 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, 2017, 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	OPERS Traditional	OPERS Combined	OP&F	Total
Proportion of the net pension liability/asset prior measurement date	0.019819%	0.015336%	0.219750%	
Proportion of the net pension liability/asset current measurement date	<u>0.018804%</u>	<u>0.012249%</u>	<u>0.213101%</u>	
Change in proportionate share	(0.001015%)	(0.003087%)	(0.006649%)	
Proportionate share of the net pension liability	\$ 2,949,984	\$ -	\$ 13,078,971	\$ 16,028,955
Proportionate share of the net pension asset	\$ -	\$ 16,674	\$ -	\$ 16,674
Pension expense	\$ 619,220	\$ 2,604	\$ 1,413,925	\$ 2,035,749

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional	OPERS Combined	OP&F	Total
<b>Deferred outflow of resources</b>				
City contributions subsequent to the measurement date	\$ 351,204	\$ 8,022	\$ 1,047,832	\$ 1,407,058
Differences in employer contributions and change in proportionate share	30,977	1,456	71,896	104,329
Difference between expected and actual experience	3,013	-	198,482	201,495
Change in assumptions	<u>352,543</u>	<u>1,457</u>	<u>569,920</u>	<u>923,920</u>
Total deferred outflow of resources	\$ <u>737,737</u>	\$ <u>10,935</u>	\$ <u>1,888,130</u>	\$ <u>2,636,802</u>

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### 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	OPERS Combined	OP&F	Total
<b>Deferred inflow of resources</b>				
Differences in employer contributions and change in proportionate share	\$ 106,897	\$ 1,771	\$ 740,276	\$ 848,944
Net difference between projected and actual earnings on pension plan investments	633,322	2,631	452,432	1,088,385
Difference between expected and actual experience	<u>58,135</u>	<u>4,968</u>	<u>23,663</u>	<u>86,766</u>
Total deferred inflow of resources	\$ <u>798,354</u>	\$ <u>9,370</u>	\$ <u>1,216,371</u>	\$ <u>2,024,095</u>

The \$1,407,058 reported as deferred outflows of resources related to pension resulting from the 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional	OPERS Combined	OP&F	Total
Fiscal Year Ending December 31:				
2019	\$ 238,270	\$ (924)	\$ 183,277	\$ 420,623
2020	(110,969)	(996)	64,328	(47,637)
2021	(278,882)	(1,586)	(404,283)	(684,751)
2022	(260,240)	(1,524)	(316,242)	(578,006)
2023	-	(600)	76,461	75,861
2024-2027	-	(827)	20,386	19,559
	\$ <u>(411,821)</u>	\$ <u>(6,457)</u>	\$ <u>(376,073)</u>	\$ <u>(794,351)</u>

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 9: Defined Benefit Pension Plans (continued)**

#### **E. Actuarial Assumptions – OPERS**

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>OPERS</u> <u>Traditional plan</u>	<u>OPERS</u> <u>Combined plan</u>
Valuation Date	December 31, 2017	December 31, 2017
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.15% Simple	3% Simple through 2018 then 2.15% Simple

OPERS conducts an experience study every five years in accordance with Ohio Revised Code Section 145.22. The study for the five-year period ended December 31, 2015 and methods and assumptions were approved and adopted by the OPERS Board of Trustees.

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy 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.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 9: Defined Benefit Pension Plans (continued)

#### E. Actuarial Assumptions – OPERS (continued)

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 were determined by applying the MP-2015 Mortality Improvement Scale to the above described tables.

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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for changing amounts actually invested for the Defined Benefit portfolio was 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board 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 2017 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%	2.20%
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other Investments	18.00	5.26
Total	<u>100.00%</u>	<u>5.66%</u>

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 9: Defined Benefit Pension Plans (continued)

#### E. Actuarial Assumptions – OPERS (continued)

**Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, 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%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City’s proportionate share of the net pension liability – Traditional	\$ 5,238,418	\$ 2,949,984	\$ 1,042,118
City’s proportionate share of the net pension (asset) – Combined	\$ (9,064)	\$ (16,674)	\$ (21,926)

**Changes between Measurement Date and Report Date** In October 2018, the OPERS Board voted to lower the investment return assumption for its defined benefit fund from 7.5% to 7.2%. This change will be effective for the 2018 valuation. The exact amount of the impact to the City’s net position is not known.

#### F. Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, 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, 2017, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Salary increases	3.75% - 10.50%
Payroll growth	Inflation rate of 2.75% plus productivity increase rate of 0.5%
Cost of living adjustments	3.00% simple; 2.2% simple for increases based on the lesser of the increase in CPI and 3.00%

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 9: Defined Benefit Pension Plans (continued)

#### F. Actuarial Assumptions – OP&F (continued)

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

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

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

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

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

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 OP&F's 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 average 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, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36

\*Levered 2x

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 9: Defined Benefit Pension Plans (continued)**

#### **F. Actuarial Assumptions – OP&F (continued)**

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

**Discount Rate** The total pension liability was calculated using the discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00%. 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 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	<u>1% Decrease (7.00%)</u>	<u>Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$ 18,130,883	\$ 13,078,971	\$ 8,958,674

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 10: Postemployment Benefits**

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

Plan Description – the Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed plan, a defined contribution plan; and the Combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. While members (e.g., City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment 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.

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

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

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0% of earnable salary. This is 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, 2018**

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### **Note 10: Postemployment Benefits (continued)**

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

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional pension plan and Combined plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2018, the City's contributions to the health care plans were \$1,077.

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

Plan Description – the City's full-time police and fire participate in the OP&F sponsored health care program, a cost-sharing, multiple-employer defined postemployment health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

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

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5% of covered payroll for police and 24.0% of covered payroll for fire. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police and 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, 2018**

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### **Note 10: Postemployment Benefits (continued)**

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was \$24,751 for 2018. Of this amount, \$3,425 is reported as intergovernmental payable at December 31, 2018.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.019115%	0.219750%	
Proportion of the net OPEB liability current measurement date	<u>0.018160%</u>	<u>0.213101%</u>	
Change in proportionate share	(0.000955%)	(0.006649%)	
Proportionate share of the net OPEB liability	\$ 1,961,183	\$ 12,074,005	\$ 14,035,188
OPEB expense	\$ 132,078	\$ 903,730	\$ 1,035,808

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 10: Postemployment Benefits (continued)

#### C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflow of resources</b>			
City contributions subsequent to the measurement date	\$ 1,077	\$ 24,751	\$ 25,828
Difference between expected and actual experience	1,528	-	1,528
Change in assumptions	<u>142,795</u>	<u>1,178,167</u>	<u>1,320,962</u>
Total deferred outflow of resources	\$ <u>145,400</u>	\$ <u>1,202,918</u>	\$ <u>1,348,318</u>
<b>Deferred inflow of resources</b>			
Difference between expected and actual experience	\$ -	\$ 60,896	\$ 60,896
Net difference between projected and actual earnings on OPEB plan investments	146,095	79,476	225,571
Differences in employer contributions and change in proportionate share	<u>73,593</u>	<u>275,125</u>	<u>348,718</u>
Total deferred inflow of resources	\$ <u>219,688</u>	\$ <u>415,497</u>	\$ <u>635,185</u>

The \$25,828 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Fiscal Year Ending December 31:			
2019	\$ (2,708)	\$ 103,251	\$ 100,543
2020	(2,708)	103,251	100,543
2021	(33,426)	103,251	69,825
2022	(36,523)	103,251	66,728
2023	-	123,121	123,121
2024-2025	<u>-</u>	<u>226,545</u>	<u>226,545</u>
	\$ <u>(75,365)</u>	\$ <u>762,670</u>	\$ <u>687,305</u>

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 10: Postemployment Benefits (continued)**

#### **D. Actuarial Assumptions – OPERS**

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Health Care Costs Trend Rate	7.5%, initial 3.25%, ultimate in 2028
Actuarial Cost Method	Individual Entry Age
Investment Rate of Return	6.50%
Municipal Bond Rate	3.31%
Wage Inflation	3.25%
Projected Salary Increases, including 3.25% inflation	3.25% to 10.75%
Single Discount Rate:	
Current measurement date	3.85%
Prior measurement date	4.23%

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

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

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 10: Postemployment Benefits (continued)

#### D. Actuarial Assumptions – OPERS (continued)

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional pension plan, Combined plan and Member-Directed plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2% for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00%	1.88%
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other Investments	17.00	5.39
Total	<u>100.00%</u>	<u>4.98%</u>

**Discount Rate** A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23% was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 10: Postemployment Benefits (continued)

#### D. Actuarial Assumptions – OPERS (continued)

**Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.85%, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85%) or one-percentage-point higher (4.85%) than the current rate:

	1% Decrease <u>(2.85%)</u>	Discount Rate <u>(3.85%)</u>	1% Increase <u>(4.85%)</u>
City’s proportionate share of the net OPEB liability	\$ 2,605,516	\$ 1,961,183	\$ 1,439,924

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

	1% Decrease <u>                    </u>	Cost Trend Rate <u>                    </u>	1% Increase <u>                    </u>
City’s proportionate share of the net OPEB liability	\$ 1,876,434	\$ 1,961,183	\$ 2,048,726

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

**Changes between Measurement Date and Report Date** In October 2018, the OPERS Board voted to lower the investment return assumption for its health care investment portfolio from 6.5% to 6.0%. This change will be effective for the 2018 valuation. The exact amount of the impact to the City’s net position is not known.

#### E. Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 10: Postemployment Benefits (continued)

#### E. Actuarial Assumptions – OP&F (continued)

Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

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

Actuarial cost method	Entry age normal
Single discount rate:	
Current measurement date	3.24%
Prior measurement date	3.79%
Investment rate of return	8.00%
Salary increases	3.75% – 10.50%
Payroll growth	Inflation rate of 2.75% plus productivity increase rate of 0.5%
Cost of living adjustments	3.00% simple; 2.2% simple for increases based on the lesser of the increase in CPI and 3.00%

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

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

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 10: Postemployment Benefits (continued)

#### E. Actuarial Assumptions – OP&F (continued)

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

The most recent experience study was completed for the five-year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36

\*Levered 2x

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

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 10: Postemployment Benefits (continued)

#### E. Actuarial Assumptions – OP&F (continued)

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.24%. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16% at December 31, 2017 and 3.71% at December 31, 2016, was blended with the long-term rate of 8.00%, which resulted in a blended discount rate of 3.24%. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24%), or one percentage point higher (4.24%) than the current rate.

	1% Decrease <u>(2.24%)</u>	Discount Rate <u>(3.24%)</u>	1% Increase <u>(4.24%)</u>
City's proportionate share of the net OPEB liability	\$ 15,092,651	\$ 12,074,005	\$ 9,751,288

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate** Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

<u>Year</u>	<u>Non-Medicare</u>	<u>Non-AARP</u>	<u>AARP</u>	<u>Rx Drug</u>	<u>Medicare Part B</u>
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and later	4.50%	4.50%	4.50%	4.50%	5.00%

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### Note 10: Postemployment Benefits (continued)

#### E. Actuarial Assumptions – OP&F (continued)

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current health care cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$ 9,379,304	\$ 12,074,005	\$ 15,705,549

**Changes between Measurement Date and Report Date** In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's net OPEB liability is not known.

### Note 11: Long-term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2018 was as follows:

	<u>Restated Balance 12/31/17</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance 12/31/18</u>	<u>Due Within One Year</u>
General obligation bonds:					
2.40% 2013 various purpose bonds	\$ 1,330,000	\$ -	\$ (250,000)	\$ 1,080,000	\$ 260,000
2.42% 2015 park improvement bonds	<u>1,465,000</u>	<u>-</u>	<u>(105,000)</u>	<u>1,360,000</u>	<u>110,000</u>
Total general obligation bonds	<u>2,795,000</u>	<u>-</u>	<u>(355,000)</u>	<u>2,440,000</u>	<u>370,000</u>
OPWC loans:					
0.00% Issue II loan	89,342	-	(26,802)	62,540	8,934
0.00% Meadowbrook sanitary sewer	123,390	-	(20,565)	102,825	6,855
0.00% Meaddowbrook Rehabilitation Phase II	<u>303,873</u>	<u>-</u>	<u>(28,488)</u>	<u>275,385</u>	<u>9,496</u>
Total OPWC loans	<u>516,605</u>	<u>-</u>	<u>(75,855)</u>	<u>440,750</u>	<u>25,285</u>
Net pension liability	<u>18,419,261</u>	<u>-</u>	<u>(2,390,306)</u>	<u>16,028,955</u>	<u>-</u>
Net OPEB liability	<u>12,361,768</u>	<u>1,673,420</u>	<u>-</u>	<u>14,035,188</u>	<u>-</u>
Other obligations:					
SIB loan	162,339	-	(79,961)	82,378	82,378
Accrued compensated absences	<u>1,156,326</u>	<u>151,671</u>	<u>(647,312)</u>	<u>660,685</u>	<u>397,830</u>
Total other obligations	<u>1,318,665</u>	<u>151,671</u>	<u>(727,273)</u>	<u>743,063</u>	<u>480,208</u>
Total long-term liabilities	\$ <u>35,411,299</u>	\$ <u>1,825,091</u>	\$ <u>(3,548,434)</u>	\$ <u>33,687,956</u>	\$ <u>875,493</u>

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

### Note 11: Long-term Obligations (continued)

Principal and interest requirement to retire the long-term debt obligations outstanding at December 31, 2018 were as follows:

Year	Governmental Activities						
	General Obligation Bonds		OPWC Loans	SIB Loan		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2019	\$ 370,000	\$ 58,832	\$ 25,285	\$ 82,378	\$ 1,858	\$ 477,663	\$ 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	50,570	-	-	450,570	31,525
2023	120,000	21,901	32,702	-	-	152,702	21,901
2024-2028	645,000	64,372	136,090	-	-	781,090	64,372
2029-2033	140,000	3,388	94,961	-	-	234,961	3,388
Totals	\$ <u>2,440,000</u>	\$ <u>270,736</u>	\$ <u>440,750</u>	\$ <u>82,378</u>	\$ <u>1,858</u>	\$ <u>2,963,128</u>	\$ <u>272,594</u>

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 2.40% 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 2.42% 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%.

Compensated absences will be paid by the fund from which the employee's salary is paid. There is no repayment schedule for net pension or net OPEB liabilities; however, employer pension and OPEB contributions are made from the General Fund. See Notes 9 and 10 for further information on the City's pension and OPEB plans.

### Note 12: Risk Management

#### A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. In October 1989, the City joined together with neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self-insurance fund. The City pays an annual premium to NORMA for its insurance coverage. This coverage is paid from the General Fund.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 12: Risk Management (continued)**

#### **A. 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. NORMA is a separate and independent entity governed by its own set of by-laws and constitution. All assets and liabilities are the responsibility of NORMA. The program is operated as a full indemnity program with no financial liability (other than monthly premiums) or risk to the City. The City is not liable nor will it receive a cash balance of past claims upon departure from the pool. There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

#### **B. 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.

#### **C. Employee Health Benefits**

The City provides employee medical, prescription drug and dental benefits through the purchase of fully-insured commercial policies. The City's liability for employee health benefits is limited to the cost of policy premiums.

### **Note 13: Compensated Absences**

Full-time employees are eligible to earn vacation leave. Vacation leave is earned on a calendar year basis at rates which vary depending upon length of service and bargaining unit. Vacation leave is non-cumulative and expires at the end of the calendar year, unless usage of the vacation was prevented due to extraordinary circumstances and the carryover of vacation is approved by the Mayor. Upon separation from the City, employees are paid for earned, unused vacation leave if the employee has at least one year of continuous service with the City.

Collective bargaining unit members are eligible to earn compensatory time in lieu of overtime compensation; non-bargaining unit employees are ineligible to earn compensatory time. The maximum compensatory time accrual before mandatory cash out of compensatory time varies depending upon the collective bargaining unit contract.

Full-time and part-time employees are eligible to earn sick leave; temporary and seasonal employees are ineligible to earn sick leave. Sick leave is earned at a rate of 4.6 hours for every 80 hours worked. There is no maximum sick leave accrual.

For non-bargaining employees, upon retirement from the City or death while an employee of the City, employees are paid for accumulated, unused sick leave at a rate of twenty-five percent of the first 2,000 hours and forty percent for the remaining hours. For non-bargaining employees, upon voluntary separation from the City, employees with ten years of service with the City are eligible to cash out accumulated, unused sick leave at a rate of one percent for every year of service with the City. For non-bargaining employees, upon involuntary separation from the City, there is no payment for accumulated, unused sick leave.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 13: Compensated Absences (continued)**

For collective bargaining unit members, upon retirement from the City after a minimum of ten years of service with the City, employees are paid for accumulated, unused sick leave at a rate of twenty-five percent of the first 2,000 hours and forty percent for the remaining hours. For collective bargaining unit members, upon separation from the City, employees with ten years of service with the City are eligible to cash out accumulated, unused sick leave at a rate of one percent for every year of service with the City.

### **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, 2018.

#### **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, 2018.

### **Note 15: Interfund Activity**

#### **A. Interfund Transfers**

Interfund transfers for the year ended December 31, 2018, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 1,784,000
Other governmental funds	1,784,000	-
Total	\$ <u>1,784,000</u>	\$ <u>1,784,000</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.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## For the Year Ended December 31, 2018

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### Note 15: Interfund Activity (continued)

#### B. Interfund Balances

Interfund balances for the year ended December 31, 2018, consisted of the following:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	
	Other Governmental Funds	Totals
General fund	\$ <u>309,129</u>	\$ <u>309,129</u>

The interfund receivables and payables listed above result from a difference in the timing of when expenses are recognized in accordance with generally accepted accounting principles and when the related interfund subsidies are budgeted for payment on a cash basis.

### Note 16: Shared Risk Pool

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Beachwood, Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, University Heights and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA Self-Insurance Pool, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the Mayor from each of the participating members.

Each entity must remain a member for at least three years from 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, the City of University Heights, whose commencement date is October 1, 2008, and the City of Beachwood, whose commencement date is November 30, 2017. After the initial three years, each City may extend its term in three-year increments. The City is currently committed as a member through September 30, 2020.

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, a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the specific stop-loss coverage carried by the pool. The self-insurance pool will pay up to \$800,000 per policy year before the aggregate stop-loss coverage takes over. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2018, the City of University Heights paid \$87,633 in premiums from the General Fund, which represents 5.79 percent of the total premiums paid by all members. Financial information can be obtained by contacting Jeffrey Knoblauch, Board President, care of the City of Hudson Finance Department, 115 Executive Parkway, Suite 400, Hudson, OH 44236.

# City of University Heights, Ohio

Notes to the Basic Financial Statements (continued)

## **For the Year Ended December 31, 2018**

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### **Note 17: Accountability**

The Special Revenue Park, Special Revenue CDBG, and Special Revenue BCI & FBI Trust funds had fund deficits of \$102,968, \$164,983, and \$320, respectively, at December 31, 2018. The deficits in these funds are due to accrued liabilities. The General Fund provides transfers when cash is required, not when accruals occur.

### **Note 18: Subsequent Events**

In January 2019, the City signed a capital lease agreement for the purchase of a ladder truck scheduled to be delivered in December 2019. The first lease payment is expected to be required in January 2020.

### **Note 19: Construction Commitments**

The City has a project in process for the Groveland and Washington Waterline Replacement Project. As of December 31, 2018, the City has paid \$465,047 to the contractor and still has \$918,900 remaining to be paid.

### **Note 20: Jointly Governed Organizations**

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 220 communities who have been authorized by ballot to purchase electricity and/or natural gas on behalf of their citizens; the City participates with both the electricity and natural gas programs. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2018. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

***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 Employee Retirement System – Traditional Plan

### For the Last Five Years (1)

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.018804%	0.019819%	0.019172%	0.018785%	0.018785%
City's proportionate share of the net pension liability	\$ 2,949,984	\$ 4,500,558	\$ 3,320,832	\$ 2,265,681	\$ 2,214,507
City's covered payroll	\$ 2,484,954	\$ 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 payroll	118.71%	175.67%	139.17%	98.05%	103.47%
Plan fiduciary net position as a percentage of the total pension liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Schedules is intended to show ten years of information, and additional years will be displayed as it becomes available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

## City of University Heights, Ohio

Required Supplementary Information  
 Schedule of the City's Proportionate Share of the Net Pension Asset  
 Ohio Public Employee Retirement System – Combined Plan

### For the Last Five Years (1)

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension asset	0.012249%	0.015336%	0.012960%	0.008464%	0.008464%
City's proportionate share of the net pension asset	\$ 16,674	\$ 8,536	\$ 6,307	\$ 3,259	\$ 888
City's covered payroll	\$ 50,169	\$ 59,692	\$ 47,158	\$ 31,175	\$ 28,877
City's proportionate share of the net pension asset as a percentage of its covered payroll	33.24%	14.30%	13.37%	10.45%	3.08%
Plan fiduciary net position as a percentage of the total pension asset	137.28%	116.55%	116.90%	114.83%	104.33%

(1) Information prior to 2014 is not available. Schedules is intended to show ten years of information, and additional years will be displayed as it becomes available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

## City of University Heights, Ohio

### Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Police and Fire Fund

#### **For the Last Five Years (1)**

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	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.213101%	0.219750%	0.229063%	0.228949%	0.228949%
City's proportionate share of the net pension liability	\$ 13,078,971	\$ 13,918,703	\$ 14,735,764	\$ 11,860,503	\$ 11,150,525
City's covered payroll	\$ 4,686,371	\$ 4,587,359	\$ 4,674,379	\$ 4,553,656	\$ 4,458,467
City's proportionate share of the net pension liability as a percentage of its covered payroll	279.09%	303.41%	315.25%	260.46%	250.10%
Plan fiduciary net position as a percentage of the total pension liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Schedules is intended to show ten years of information, and additional years will be displayed as it becomes available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

## City of University Heights, Ohio

Required Supplementary Information  
 Schedule of the City Pension Contributions  
 Ohio Public Employee Retirement System – Traditional Plan

### For the Last Six Years (1)

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually-required contributions	\$ 351,204	\$ 323,044	\$ 307,438	\$ 286,331	\$ 277,281
Contributions in relation to the contractually- required contribution	<u>(351,204)</u>	<u>(323,044)</u>	<u>(307,438)</u>	<u>(286,331)</u>	<u>(277,281)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 2,508,603	\$ 2,484,954	\$ 2,561,983	\$ 2,386,092	\$ 2,310,675
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%	12.00%
	<u>2013 (1)</u>				
Contractually-required contributions	\$ 278,223				
Contributions in relation to the contractually- required contribution	<u>(278,223)</u>				
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 2,140,177				
Contributions as a percentage of covered payroll	13.00%				

(1) Information prior to 2013 is not available. Schedules 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 the City Pension Contributions  
 Ohio Public Employee Retirement System – Combined Plan

### For the Last Six Years (1)

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually-required contributions	\$ 8,022	\$ 6,522	\$ 7,163	\$ 5,659	\$ 3,741
Contributions in relation to the contractually- required contribution	<u>(8,022)</u>	<u>(6,522)</u>	<u>(7,163)</u>	<u>(5,659)</u>	<u>(3,741)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 57,302	\$ 50,169	\$ 59,692	\$ 47,158	\$ 31,175
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%	12.00%
	<u>2013 (1)</u>				
Contractually-required contributions	\$ 3,754				
Contributions in relation to the contractually- required contribution	<u>(3,754)</u>				
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 28,877				
Contributions as a percentage of covered payroll	13.00%				

(1) Information prior to 2013 is not available. Schedules 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 the City Pension Contributions Ohio Police and Fire Pension Fund

#### **For the Last Ten Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually-required contributions	\$ 1,047,832	\$ 985,091	\$ 967,799	\$ 986,355	\$ 963,651
Contributions in relation to the contractually-required contribution	<u>(1,047,832)</u>	<u>(985,091)</u>	<u>(967,799)</u>	<u>(986,355)</u>	<u>(963,651)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,950,200	\$ 4,686,371	\$ 4,587,359	\$ 4,674,379	\$ 4,553,656
Contributions as a percentage of covered payroll	21.17%	21.02%	21.10%	21.10%	21.16%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually-required contributions	\$ 799,905	\$ 689,634	\$ 729,037	\$ 713,360	\$ 688,780
Contributions in relation to the contractually-required contribution	<u>(799,905)</u>	<u>(689,634)</u>	<u>(729,037)</u>	<u>(713,360)</u>	<u>(688,780)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 4,458,467	\$ 4,605,668	\$ 4,871,906	\$ 4,775,201	\$ 4,607,905
Contributions as a percentage of covered payroll	17.94%	14.97%	14.96%	14.94%	14.95%

The accompanying notes are an integral part of the required supplementary information

## City of University Heights, Ohio

Required Supplementary Information  
Schedule of the City's Proportionate Share of the Net OPEB Liability  
Ohio Public Employee Retirement System

### For the Last Two Years (1)

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	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.018160%	0.019115%
City's proportionate share of the net OPEB liability	\$ 1,961,183	\$ 1,930,730
City's covered payroll	\$ 2,557,871	\$ 2,641,686
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	76.67%	73.09%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedules is intended to show ten years of information, and additional years will be displayed as it becomes available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

## City of University Heights, Ohio

Required Supplementary Information  
Schedule of the City's Proportionate Share of the Net OPEB Liability  
Ohio Police and Fire Pension Fund

### For the Last Two Years (1)

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	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.213101%	0.219750%
City's proportionate share of the net OPEB liability	\$ 12,074,005	\$ 10,431,038
City's covered payroll	\$ 4,686,371	\$ 4,587,359
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	257.64%	227.39%
Plan fiduciary net position as a percentage of the total OPEB liability	14.13%	15.96%

(1) Information prior to 2017 is not available. Schedules is intended to show ten years of information, and additional years will be displayed as it becomes available. Amounts presented for each year were determined as of the City's measurement date which is December 31 of the prior year.

## City of University Heights, Ohio

Required Supplementary Information  
Schedule of the City OPEB Contributions  
Ohio Public Employee Retirement System

### For the Last Three Years (1)

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	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>
Contractually-required contributions	\$ 1,077	\$ 26,261	\$ 56,698
Contributions in relation to the contractually- required contribution	<u>(1,077)</u>	<u>(26,261)</u>	<u>(56,698)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,592,871	\$ 2,557,871	\$ 2,641,686
Contributions as a percentage of covered payroll	0.04%	1.03%	2.15%

(1) Information prior to 2016 is not available. Schedules 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 the City OPEB Contributions Ohio Police and Fire Pension Fund

#### **For the Last Ten Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually-required contributions	\$ 24,751	\$ 23,432	\$ 22,937	\$ 23,372	\$ 22,768
Contributions in relation to the contractually-required contribution	<u>(24,751)</u>	<u>(23,432)</u>	<u>(22,937)</u>	<u>(23,372)</u>	<u>(22,768)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 4,950,200	\$ 4,686,371	\$ 4,587,359	\$ 4,674,379	\$ 4,553,656
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually-required contributions	\$ 161,397	\$ 310,883	\$ 347,281	\$ 322,326	\$ 311,034
Contributions in relation to the contractually-required contribution	<u>(161,397)</u>	<u>(310,883)</u>	<u>(347,281)</u>	<u>(322,326)</u>	<u>(311,034)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 4,458,467	\$ 4,605,668	\$ 4,871,906	\$ 4,775,201	\$ 4,607,905
Contributions as a percentage of covered payroll	3.62%	6.75%	6.75%	6.75%	6.75%

The accompanying notes are an integral part of the required supplementary information

# City of University Heights, Ohio

## Notes to the Required Supplementary Information

### **For the Year Ended December 31, 2018**

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#### **Note 1: Change in Assumptions – OPERS Traditional and Combined Pension Plans**

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	<u>2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25%	3.75%
Future Salary Increases, Including Inflation	3.25-10.75% (including wage inflation at 3.25%)	4.25-10.05% (including wage inflation)
COLA or Ad Hoc COLA: Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.8% Simple
Investment Rate of Return	7.50%	8.00%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For the current valuation, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy 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.

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

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

#### **Note 2: Change in Assumptions – OP&F Pension Plan**

Amounts reported in 2018 reflect changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.25% down to 8.00%, for the defined benefit investments.

#### **Note 3: Change in Assumptions – OPERS OPEB Plan**

For 2018, the single discount rate changed from 4.23% to 3.85%.

#### **Note 4: Change in Assumptions – OP&F OPEB Plan**

For 2018, the single discount rate changed from 3.79% to 3.24%.

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

*Certified Public Accountants*

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*Garfield Hts., Ohio 44125*

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**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 Keith Faber  
Auditor of State  
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 23, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and the City restated its capital assets as of December 31, 2017.

***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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified certain deficiencies in internal control that we considered to be a material weakness and a significant deficiency.

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. We identified certain deficiencies in the accompanying Schedule of Findings and Questioned Costs that we considered a material weakness as item **2018-001**.

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. We identified certain deficiencies in the accompanying Schedule of Findings and Questioned Costs that we considered a significant deficiency as item **2018-002**.

### ***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 the Findings***

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

### ***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

August 23, 2019

**CITY OF UNIVERSITY HEIGHTS  
CUYAHOGA COUNTY, OHIO  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Finding 2018-001 – 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 during the year.
- The City identified a posted difference of \$186,546 during the reconciliation process, requiring an adjustment of \$186,546 to the City's books for the unreconciled difference.
- Pursuant to the City posting the \$186,546 adjustment to expenses, the City had immaterial errors on the bank reconciliations that resulted in a difference between the book and bank balances.
- Upon completion of the cash reconciliation procedure, an additional \$49,843 was adjusted on the accrual basis financial statements as a reduction to City expenses.

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

The \$186,546 variance was identified as the residual variance between bank account balances and the accounting system balance as a result of prior Finance Director's failure to reconcile bank statements and post correcting entries. With knowledge of the past bank reconciliation problems, the current administration switched to new bank accounts and to a new accounting system in part to provide a fresh start, which would aid in identifying reconciling items masked by the compounding effect of previously unidentified reconciling items. During the conversion in 2019 of payroll processing from ADP to in-house with the VIP accounting system and the first bank reconciliations of the new accounting system and new bank accounts, additional unanticipated reconciling items were identified after the posting of the \$186,546 variance in December 2018. These additional reconciling items reduced the initial adjustment by \$49,843.

**CITY OF UNIVERSITY HEIGHTS  
CUYAHOGA COUNTY, OHIO  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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**Finding 2018-002 – Significant Deficiency – Capital Assets**

Condition/Criteria

During our testing of capital assets, we noted the following:

- The City is carrying on its books some assets that are over-depreciated in excess of their acquisition value, resulting in negative book values for these assets.
- The City has changed its procedures and increased the useful life and the capitalization threshold of some capital assets and performed physical observation; however, there are some capital assets that are still reflected as fully depreciated assets after the implementation of these changes which caused a restatement to the financial statement.
- The City has changed its procedures for the recognition of capital assets in its financial statements from the prior year, but the new Capital Asset Policy has not been formalized by Council approval. This caused a restatement to the financial statements.

Cause/Effect

The City implemented a new capital asset threshold and a new Capital Asset Policy that has not been formalized by Council approval.

Recommendation

We recommend that the City review its depreciation calculations annually to ensure that assets are being depreciated correctly. We also recommend the City use a salvage value for its assets to ensure all assets that are in use have value. In addition, we recommend the City have its new formal Capital Asset Policy approved by Council to ensure consistency in financial reporting.

City Response

The restatement of capital assets was due to the failure of prior administrations to maintain accurate asset inventories, in particular the inventory of City owned vehicles. During 2018, emphasis was placed on the development of accurate asset inventories for real estate, buildings, land improvements, and vehicles. For 2019 reporting, emphasis is planned to focus on the asset inventory for City owned equipment.

**CITY OF UNIVERSITY HEIGHTS  
CUYAHOGA COUNTY, OHIO  
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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The prior issued audit report, as of December 31, 2017, included a material weakness.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2017-001	Material Weakness - Cash Reconciliation	Not corrected	Repeated as Finding 2018-001.

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

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# OHIO AUDITOR OF STATE KEITH FABER



**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  
OCTOBER 22, 2019**