

City of Highland Heights, Ohio

Various Purpose (Limited Tax – General Obligation) Bond Anticipation Notes, Series 2026

Please find herein a report prepared by the Ohio Municipal Advisory Council (OMAC) as well as the City's most recent audited financial statement. These items are informational and do not constitute a disclosure document. If you would like more information, please contact Bob Franz or Logan Richter at Stifel.



Ohio Municipal Advisory Council

Not an agency of the State of Ohio

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HIGHLAND HEIGHTS CITY, OHIO

(Cuyahoga County)

Federal Identification Number – 34-6001377

Report No. N5-26

Date – January 20, 2026

OMAC Fee: \$1,000.00

Rating: Not Rated

\$4,000,000 Various Purpose Improvement (general obligation limited tax)
Bond Anticipation Notes, Series 2026

Dated February 17, 2026

Due February 16, 2027

Coupon: _____

Yield: _____

Price: _____

Fiscal Officer James P. Smith
Finance Director
5827 Highland Road
Highland Heights, Ohio 44143
Telephone No. 440-461-2440

Purchaser – TBD

Opinion – Squire Patton Boggs (US) LLP

Attorney – Ryan Callender

Paying Agent – Agent Institutional Trust Company.

Municipal Advisor – Sudsina & Associates, LLC is a Municipal Advisor registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. As such, Sudsina & Associates is providing certain specific municipal advisory services to the Issuer, but is neither a placement agent to the Issuer nor a broker/dealer.

(Gregory H. Van Wagnen)

Denominations – \$100,000.

Book Entry – Yes.

Bank Qualified – Yes.

Purpose – The Notes are being issued to (1) retire Notes due 2/18/2026 for the purpose of (a) improving streets, roads, and sidewalks in the City by resurfacing, repaving, and making other improvements (\$2,875,000); (b) improving and equipping the City Community Center (\$125,000); and (2) issuing additional money for the purpose of (c) improving streets, roads, and sidewalks in the City by resurfacing, repaving, and making other improvements.

Security – The Notes are to be paid from the proceeds of the levy of ad valorem taxes on all property subject to ad valorem taxes levied by the City, which taxes are within the 12-millage limitation provided by the Charter of the City. **The Issuer anticipates the Notes will be retired at maturity from proceeds from the sale of the long-term bonds in anticipation of which the Notes are issued, proceeds from the sale of renewal bond anticipation notes and other available funds of the Issuer, or a combination of such sources. The ability of the Issuer to retire the Notes from the proceeds of the sale of either renewal notes or bonds will be dependent on the marketability of such notes or bonds under market conditions prevailing at the time they are offered for sale, which are subject to change due to factors beyond the control of the Issuer.**

LOCATION About 12 miles east of downtown Cleveland.

Area 5.2 sq. miles.

Transportation IH 271.

Characteristics Suburban-residential, with medium to better class homes.

SALARIES, BILLS & DEBT SERVICE

Believed current with no record of deficit financing or default in current expenses or debt service.

POPULATION

| | |
|-------------------|-------|
| 2023 Estimated* - | 8,619 |
| 2010 Census* - | 8,345 |
| 2000 Census* - | 8,082 |

MUNICIPAL INCOME TAX *

| <u>Year</u> | <u>Rate</u> | <u>Receipts</u> |
|-------------|-------------|-----------------|
| 2023 | 2.00% | \$ 12,175,596 |
| 2022 | 2.00% | 11,554,396 |
| 2021 | 2.00% | 11,590,506 |

Source: * U.S. Census Bureau

* Source: Annual Financial Report

Information in this Report has been obtained by OMAC from official and other sources and is believed by OMAC to be accurate and reliable. However, OMAC has not independently confirmed or verified the information in this Report and OMAC does not guaranty the accuracy or completeness of such information. This Report does not constitute an offering of, or a recommendation with regard to the purchase of, any security.

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Age Breakdown of Population**GENERAL FUND * ###**

| Year | <u>Under</u> <u>18</u> | <u>18 To</u> <u>64</u> | <u>65 &</u> <u>Over</u> | <u>Median</u> <u>Age</u> | Year Ending | 2023 | 2022 | 2021 |
|--------------|-----------------------------------|-----------------------------------|--|-------------------------------------|---|--------------|--------------|--------------|
| 2023* | | | | | Beg. Bal 1/1 | \$ 7,868,510 | \$ 8,376,501 | \$ 7,686,545 |
| National | 22.2 % | 61.0 % | 16.8 % | 38.7 | Receipts | 14,152,814 | 13,571,915 | 13,552,450 |
| State | 22.2 % | 59.9 % | 17.9 % | 39.6 | Other Fin Srcs | 235,713 | 221,179 | 128,973 |
| Subdivision | 23.6 % | 49.7 % | 26.7 % | 44.6 | Transfers In | 0 | 25,000 | 1,026,028 |
| 2022* | | | | | Expenditures | 13,675,594 | 13,501,085 | 13,362,495 |
| National | 22.1 % | 61.4 % | 16.5 % | 38.5 | Transfers Out | 800,000 | 825,000 | 655,000 |
| State | 22.0 % | 60.4 % | 17.6 % | 39.6 | End Bal. 12/31 | 7,781,443 | 7,868,510 | 8,376,501 |
| Subdivision | 22.9 % | 49.3 % | 27.8 % | 48.0 | | | | |
| 2021* | | | | | <i>* Non-GAAP</i> | | | |
| National | 22.5 % | 61.5 % | 16.0 % | 38.4 | <i>### 2024 data will be provided as soon as received</i> | | | |
| State | 22.3 % | 60.7 % | 17.0 % | 39.4 | <i>Source: Annual Financial Report</i> | | | |
| Subdivision | 21.0 % | 53.2 % | 25.8 % | 48.7 | | | | |
| 2020* | | | | | | | | |
| National | 22.4 % | 61.6 % | 16.0 % | 38.2 | | | | |
| State | 22.2 % | 60.8 % | 17.0 % | 39.5 | | | | |
| Subdivision | 20.3 % | 54.5 % | 25.2 % | 49.5 | | | | |
| 2019* | | | | | | | | |
| National | 22.6 % | 61.8 % | 15.6 % | 38.1 | | | | |
| State | 22.4 % | 60.9 % | 16.7 % | 39.4 | | | | |
| Subdivision | 20.4 % | 55.8 % | 23.8 % | 51.7 | | | | |
| 2018* | | | | | | | | |
| National | 22.8 % | 62.0 % | 15.2 % | 37.9 | | | | |
| State | 22.5 % | 61.2 % | 16.3 % | 39.3 | | | | |
| Subdivision | 20.9 % | 55.8 % | 23.3 % | 50.4 | | | | |
| 2010 | | | | | | | | |
| National | 24.0 % | 63.0 % | 13.0 % | 37.2 | | | | |
| State | 23.7 % | 62.2 % | 14.1 % | 38.8 | | | | |
| Subdivision | 21.8 % | 58.2 % | 20.0 % | 48.2 | | | | |
| 2000 | | | | | | | | |
| National | 25.7 % | 61.9 % | 12.4 % | 35.3 | | | | |
| State | 25.4 % | 61.3 % | 13.3 % | 36.2 | | | | |
| Subdivision | 26.8 % | 55.6 % | 17.6 % | 42.2 | | | | |

* U.S. Census Bureau, American Community Survey 5 yr. estimate

HOUSING AND INCOME

2019-2023 American Community Survey Five Year Estimate *

| | <u>Subdivision</u> | <u>County</u> | <u>State</u> | <u>National</u> |
|---|---------------------------|----------------------|---------------------|------------------------|
| Total Housing Units | 3,595 | 615,513 | 5,271,573 | 142,332,876 |
| Occupied Housing Units | 3,481 | 554,173 | 4,829,571 | 127,482,865 |
| Owner Occupied (as % of Occupied) | 95.6% | 59.1% | 67.0% | 65.0% |
| Median Value of Owner Occupied Homes Estimate | \$342,400 | \$183,200 | \$199,200 | \$303,400 |
| Total Units Built 1939 or Earlier | 1.5% | 28.2% | 19.2% | 12.0% |
| Total Units Built 2020 or Later | 0.0% | 0.4% | 0.7% | 1.0% |
| Median Family Income Estimate | \$147,208 | \$86,863 | \$90,288 | \$96,922 |
| Median Household Income | \$117,820 | \$62,823 | \$69,680 | \$78,538 |
| Per Capita Income Estimate | \$65,726 | \$41,559 | \$39,455 | \$43,289 |
| Poverty Level (% of all people) ** | 1.9% | 16.2% | 13.2% | 12.4% |

* U.S. Census Bureau

** Percentage of people whose income in the past 12 months has been below the poverty level.

OCCUPATIONAL GROUPS ***Cuyahoga County**

| March, 2025 | <u>Subdivision</u> | <u>State</u> |
|--------------------|--------------------|--------------|
| Services | 50.9 % | 44.1 % |
| Government | 13.4 % | 13.8 % |
| Trade | 12.4 % | 14.3 % |
| Manufacturing | 9.5 % | 12.6 % |
| Finance | 6.7 % | 5.6 % |
| Transportation | 5.9 % | 5.9 % |
| Construction | 3.2 % | 4.5 % |
| Utilities | 0.2 % | 0.3 % |
| Mining | 0.1 % | 0.2 % |
| Agriculture | N/R | 0.3 % |
| March, 2024 | <u>Subdivision</u> | <u>State</u> |
| Services | 50.6 % | 43.8 % |
| Government | 13.3 % | 13.8 % |
| Trade | 12.7 % | 14.5 % |
| Manufacturing | 9.6 % | 12.8 % |
| Finance | 6.8 % | 5.7 % |
| Transportation | 6.0 % | 5.9 % |
| Construction | 3.1 % | 4.3 % |
| Utilities | 0.2 % | 0.3 % |
| Mining | N/R | 0.2 % |
| Agriculture | N/R | 0.3 % |

"N/R" displayed for statistics not reported.

* Ohio Department of Job and Family Services

UNEMPLOYMENT RATE ***Cuyahoga County**

| | <u>Subdivision</u> | <u>State</u> | <u>National</u> |
|-----------------|--------------------|--------------|-----------------|
| September, 2025 | 3.4 % | 4.1 % | 4.3 % |
| September, 2024 | 3.6 % | 4.2 % | 3.9 % |

* Ohio Department of Job and Family Services

UNEMPLOYMENT CLAIMANTS ***Cuyahoga County**

| | <u>Initial Claims</u> | <u>Continued Claims</u> |
|----------------|-----------------------|-------------------------|
| November, 2025 | 2,507 | 19,585 |
| November, 2024 | 2,892 | 19,579 |

* Ohio Department of Job and Family Services

LARGEST TAXPAYERS BY VALUATION*

(2025 Collection Year)

| Taxpayer Name | Assessed Valuation |
|--|---------------------------|
| 305 Bishop Road Propco LLC | \$8,688,120 |
| Progressive Direct Insurance Co | \$7,756,770 |
| Philips Med. Sys (CLE) Inc Marvin Poer & Co. | \$6,815,900 |
| Derf Limited | \$6,082,020 |
| PPT Real Estate Holdings LLC | \$5,765,830 |
| Alpha Plaza Investments Ltd | \$4,566,030 |
| Cleve Elect Illum Co | \$3,877,500 |
| NCI Cleveland NVA LLC | \$3,773,490 |
| Crawford Fitting Co | \$3,444,910 |
| Spirit Realty LP | \$3,283,735 |

* County/Appraisal Company

LARGEST TAXPAYERS BY CURRENT TAXES*

(2025 Collection Year)

| Taxpayer Name | Current Taxes |
|--|----------------------|
| 305 Bishop Road Propco LLC | \$1,096,442 |
| Progressive Direct Insurance Co | \$978,907 |
| Derf Limited | \$767,553 |
| PPT Real Estate Holdings LLC | \$727,648 |
| Philips Med. Sys (CLE) Inc Marvin Poer & Co. | \$709,048 |
| Alpha Plaza Investments Ltd | \$576,234 |
| Cleve Elect Illum Co | \$489,341 |
| NCI Cleveland NVA LLC | \$476,216 |
| Crawford Fitting Co | \$434,750 |
| Spirit Realty LP | \$414,408 |

* County/Appraisal Company

PROPERTY TAX RATES *

| <u>YEAR</u> | <u>TYPE</u> | <u>DEBT</u> | <u>TOTAL</u> | <u>OVERALL</u> | <u>YEAR</u> | <u>TYPE</u> | <u>DEBT</u> | <u>TOTAL</u> | <u>OVERALL</u> |
|-------------|-------------|-------------|--------------|----------------|-------------|-------------|-------------|--------------|----------------|
| 2024-2025 | Stated | 0.20 | 4.00 | 126.20 | 2023-2024 | Stated | 0.20 | 4.00 | 121.20 |
| | Res/Ag | 0.20 | 4.00 | 64.24 | | Res/Ag | 0.20 | 4.00 | 73.05 |
| | Other | 0.20 | 4.00 | 86.18 | | Other | 0.20 | 4.00 | 84.39 |
| <u>YEAR</u> | <u>TYPE</u> | <u>DEBT</u> | <u>TOTAL</u> | <u>OVERALL</u> | <u>YEAR</u> | <u>TYPE</u> | <u>DEBT</u> | <u>TOTAL</u> | <u>OVERALL</u> |
| 2022-2023 | Stated | 0.20 | 4.00 | 120.80 | 2021-2022 | Stated | 0.20 | 4.00 | 120.80 |
| | Res/Ag | 0.20 | 4.00 | 72.60 | | Res/Ag | 0.20 | 4.00 | 72.02 |
| | Other | 0.20 | 4.00 | 82.61 | | Other | 0.20 | 4.00 | 82.44 |

* State Of Ohio

PROPERTY TAX COLLECTIONS *

| | <u>Current Charge</u> | <u>Total Collected</u> | <u>Pct. of Current Charge Collected</u> | <u>Total Unpaid</u> | <u>Unpaid of Current</u> |
|------------------|---------------------------|----------------------------|---|-------------------------|------------------------------|
| <u>2024-2025</u> | | | | | |
| RE&PU | \$2,268,488 | \$2,171,904 | 96% | \$147,303 | \$119,560 |
| SA | \$355,177 | \$344,912 | 97% | \$51,787 | \$13,758 |
| <u>2023-2024</u> | | | | | |
| RE&PU | \$1,889,741 | \$1,897,931 | 100% | \$49,450 | \$25,411 |
| SA | \$359,182 | \$348,539 | 97% | \$39,660 | \$18,360 |
| <u>2022-2023</u> | | | | | |
| RE&PU | \$1,828,237 | \$1,845,477 | 101% | \$54,830 | \$34,602 |
| SA | \$356,071 | \$357,801 | 100% | \$28,019 | \$6,973 |
| <u>2021-2022</u> | | | | | |
| RE&PU | \$1,841,764 | \$1,871,183 | 102% | \$64,865 | \$35,550 |
| SA | \$484,372 | \$478,228 | 99% | \$429,269 | \$20,656 |
| <u>2020-2021</u> | | | | | |
| RE&PU | \$1,726,985 | \$1,704,740 | 99% | \$82,193 | \$55,458 |
| SA | \$487,149 | \$485,328 | 100% | \$375,040 | \$20,698 |

* County/Appraisal Company

RE&PU - Real Estate and Public Utility SA - Special Assessment

Previous Percent RE & PU Collected *

| <u>Year</u> | <u>Percent</u> | <u>Year</u> | <u>Percent</u> | <u>Year</u> | <u>Percent</u> | <u>Year</u> | <u>Percent</u> |
|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|
| 2019-2020 | 99 % | 2014-2015 | 101 % | 2009-2010 | 100 % | 2004-2005 | 100 % |
| 1999-2000 | 100 % | 2018-2019 | 100 % | 2013-2014 | 100 % | 2008-2009 | 100 % |
| 2003-2004 | 101 % | 1998-1999 | 101 % | 2017-2018 | 101 % | 2012-2013 | 101 % |
| 2007-2008 | 100 % | 2002-2003 | 99 % | 2016-2017 | 101 % | 2011-2012 | 102 % |
| 2006-2007 | 99 % | 2001-2002 | 100 % | 2015-2016 | 99 % | 2010-2011 | 99 % |
| 2005-2006 | 100 % | 2000-2001 | 100 % | | | | |

* County/Appraisal Company

ASSESSED VALUATION *

(Next Reappraisal 2030-2031)

| | <u>2024-2025</u> | <u>2023-2024</u> | <u>2022-2023</u> | <u>2021-2022</u> | <u>2020-2021</u> |
|----------------|------------------|------------------|------------------|------------------|------------------|
| TOTAL | \$562,697,220 | \$465,901,530 | \$461,742,110 | \$459,486,520 | \$429,270,630 |
| Real Estate | 556,153,320 | 460,147,340 | 456,170,620 | 454,197,660 | 424,291,220 |
| Public Utility | 6,543,900 | 5,754,190 | 5,571,490 | 5,288,860 | 4,979,410 |

* State of Ohio

REAL ESTATE ANALYSIS * - 2024-2025

| | | | | | |
|--------------|---------------|---------|---|-------------|------------------|
| Residential | \$463,927,710 | 83.42 % | Total Estimated Commercial, Industrial, | | |
| Commercial | 69,996,320 | 12.59 | & Public Utility = \$98,726,310 | | |
| Industrial | 22,186,090 | 3.99 | Percent of Total AV 17.5% | | |
| Agricultural | 0 | 0.00 | Per Capita AV | Subdivision | Ohio Cities (##) |
| Mineral | 43,200 | 0.01 | | \$65,286 | \$31,156 |
| Railroad | 0 | 0.00 | | | |
| TOTAL | \$556,153,320 | | | | |

* State of Ohio

- Represents the average Assessed Value Per Capita for Ohio Cities.

DEBT AS OF 2/20/2026 *

| | <u>TOTAL</u> | <u>NET DEBT</u> |
|---------------------------|---------------------|---------------------|
| General Obligation | | |
| <u>Limited Tax</u> | | |
| Notes | \$4,000,000 | \$4,000,000 |
| Bonds | \$10,585,000 | \$10,585,000 |
| Special Assessment | | |
| <u>Limited Tax</u> | | |
| Bonds | \$130,000 | |
| TOTAL DEBT | \$14,715,000 | |
| TOTAL NET DEBT | | \$14,585,000 |

* OMAC

NET and NET OVERLAPPING DEBT AS OF 2/20/2026 **

(Excluding SS/SA Debt)

| | <u>Amount</u> | <u>Per Cap</u> | <u>Pct.of AV</u> |
|------------------|---------------|----------------|------------------|
| Net | \$14,585,000 | \$1,692 | 2.59% |
| Net Overlapping* | \$20,013,869 | \$2,322 | 3.56% |

* Includes:

| <u>Subdivision</u> | <u>Pct.</u> | <u>Amount</u> |
|---------------------------------|-------------|--------------------|
| Highland Heights City | 100.00% | \$14,585,000 |
| Counties | | \$3,258,757 |
| Cuyahoga County | 1.27% | \$3,258,757 |
| Miscellaneous | | \$2,170,113 |
| Cuyahoga Community College Misc | 1.27% | \$2,170,113 |

** OMAC

ADDITIONAL INFORMATION

| | |
|----------------------------------|-------------|
| <u>Debt Service Fund Balance</u> | |
| January 1, 2024 | \$1,615,313 |

**COMPARATIVE NET AND NET OVERLAPPING DEBT
AS OF JANUARY 1ST ***

| | -----NET DEBT----- | | | | -----NET OVERLAPPING DEBT----- | | | |
|------|--------------------|------------|-----|----------------------------|--------------------------------|------------|-----|----------------------------|
| 2026 | \$ | 13,585,000 | (\$ | 1,576 /Cap., 2.41 % of AV) | \$ | 19,013,869 | (\$ | 2,206 /Cap., 3.38 % of AV) |
| 2025 | \$ | 12,880,000 | (\$ | 1,494 /Cap., 2.29 % of AV) | \$ | 17,883,673 | (\$ | 2,075 /Cap., 3.18 % of AV) |
| 2024 | \$ | 12,215,000 | (\$ | 1,417 /Cap., 2.62 % of AV) | \$ | 17,661,056 | (\$ | 2,049 /Cap., 3.79 % of AV) |
| 2023 | \$ | 13,005,000 | (\$ | 1,509 /Cap., 2.82 % of AV) | \$ | 18,691,230 | (\$ | 2,169 /Cap., 4.05 % of AV) |
| 2022 | \$ | 8,140,000 | (\$ | 941 /Cap., 1.77 % of AV) | \$ | 14,079,670 | (\$ | 1,627 /Cap., 3.06 % of AV) |

* OMAC

DIRECT DEBT LIMITATIONS *

| | <u>Total Outstanding</u> | <u>Limited Tax</u> | <u>Ltd. & Unltd Tax</u> |
|----------------------------|--------------------------|--------------------|-----------------------------|
| Revenue | \$0 | N/A | N/A |
| Limited Tax | \$14,715,000 | \$14,585,000 | \$14,585,000 |
| Unlimited Tax | \$0 | N/A | \$0 |
| Debt Subject to Limitation | | \$14,585,000 | \$14,585,000 |
| GO Debt Exempt From Limit. | | \$130,000 | \$130,000 |
| Maximum Allowable | | \$30,948,347 | \$59,083,208 |
| Balance of Limitation | | \$16,363,347 | \$44,498,208 |

* OMAC

INDIRECT TEN MILL LIMITATIONS *

| | | |
|-----------------------|-------|--------|
| Maximum Allowable | | 12.000 |
| Highland Heights City | 2.655 | |
| TOTAL | | 2.655 |
| Balance Of Limitation | | 9.345 |

* OMAC

OMAC



65 East State Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
800-282-0370

Members of Council
City of Highland Heights
5827 Highland Road
Highland Heights, Ohio 44143

We have reviewed the *Independent Auditor's Report* of the City of Highland Heights, Cuyahoga County, prepared by Zupka & Associates, for the audit period January 1, 2022 through December 31, 2023. 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 Highland Heights is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

September 24, 2024

INDEPENDENT AUDITOR'S REPORT

City of Highland Heights
Cuyahoga County
5827 Highland Road
Highland Heights, Ohio 44143

To the Members of City Council:

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 Highland Heights as of December 31, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

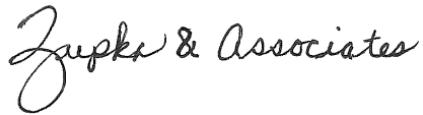
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 July 30, 2024, 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 solely 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 the effectiveness of the City's 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 cursive script that reads "Zupka & Associates".

Zupka & Associates
Certified Public Accountants

July 30, 2024

City of Highland Heights, Ohio

Statement of Net Position December 31, 2023

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 15,430,530 |
| Materials and Supplies Inventory | 158,674 |
| Accounts Receivable | 122,154 |
| Accrued Interest Receivable | 89,086 |
| Intergovernmental Receivable | 462,919 |
| Payments in Lieu of Taxes Receivable | 80,120 |
| Prepaid Items | 293,064 |
| Municipal Income Taxes Receivable | 3,063,954 |
| Property Taxes Receivable | 1,676,745 |
| Special Assessments Receivable | 384,167 |
| Lease Receivable | 251,165 |
| Nondepreciable Capital Assets | 2,040,524 |
| Depreciable Capital Assets | 43,692,286 |
| Total Assets | 67,745,388 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension | 8,026,288 |
| OPEB | 1,346,100 |
| Total Deferred Outflows of Resources | 9,372,388 |
| LIABILITIES | |
| Accounts Payable | 271,361 |
| Contracts Payable | 65,886 |
| Accrued Wages and Benefits | 348,902 |
| Intergovernmental Payable | 178,622 |
| Matured Compensated Absences Payable | 187,871 |
| Accrued Interest Payable | 24,387 |
| Retainage Payable | 324,401 |
| Unearned Revenue | 167,408 |
| Due within One Year | 1,658,476 |
| Due in More than One Year: | |
| Net Pension Liability (see Note 11) | 22,798,528 |
| Net OPEB Liability (see Note 12) | 1,384,369 |
| Other Amounts | 15,626,286 |
| Total Liabilities | 43,036,497 |
| DEFERRED INFLOWS OF RESOURCES | |
| Property Taxes and Lease | 1,936,598 |
| Pension | 873,166 |
| OPEB | 1,319,839 |
| Total Deferred Inflows of Resources | 4,129,603 |
| NET POSITION | |
| Net Investment in Capital Assets | 30,575,116 |
| Restricted for: | |
| Debt Service | 1,654,483 |
| Capital Projects | 1,895,993 |
| Street Construction, Maintenance, and Repairs | 2,148,570 |
| Parks and Recreation | 1,333,864 |
| Other Purposes | 470,110 |
| Unrestricted | (8,126,460) |
| Total Net Position | \$ 29,951,676 |

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

City of Highland Heights, Ohio

Statement of Activities For the Year Ended December 31, 2023

| | | Program Revenues | | | Net (Expense) |
|---|----------------------|---------------------|-------------------|----------------|----------------------|
| | | Charges for | Operating | Capital | Revenue and |
| | Expenses | Services | Grants and | Grants and | Changes in Net |
| | | | Contributions | Contributions | Position |
| | | | | | Total |
| Primary Government: | | | | | |
| Governmental activities: | | | | | |
| Security of Persons and Property | \$ 11,531,584 | \$ 665,376 | \$ 31,031 | \$ - | \$ (10,835,177) |
| Public Health Services | 106,133 | - | - | - | (106,133) |
| Leisure Time Activities | 1,348,002 | 322,838 | 2,315 | - | (1,022,849) |
| Community Environment | 142,317 | 271,558 | - | 48,471 | 177,712 |
| Basic Utility Services | 3,455,873 | - | 2,835 | - | (3,453,038) |
| Transportation | 1,650,500 | 230,971 | 626,824 | 101,825 | (690,880) |
| General Government | 3,356,237 | 305,561 | 149,634 | 550,000 | (2,351,042) |
| Interest and Fiscal Charges | 268,747 | - | - | - | (268,747) |
| Total Governmental activities | \$ 21,859,393 | \$ 1,796,304 | \$ 812,639 | 700,296 | (18,550,154) |
| General Revenues: | | | | | |
| Property Taxes levied for: | | | | | |
| General Purposes | | | | | 894,309 |
| Debt Service Purpose | | | | | 159,480 |
| Other Purposes | | | | | 648,405 |
| Municipal Income Taxes levied for: | | | | | |
| General Purposes | | | | | 11,550,630 |
| Debt Service Purpose | | | | | 916,484 |
| Other Taxes | | | | | 37,492 |
| Grants & Entitlements not restricted to specific programs | | | | | 349,223 |
| Investment Income | | | | | 540,273 |
| All Other Revenues | | | | | 134,457 |
| Total General Revenues | | | | | 15,230,753 |
| Change in Net Position | | | | | (3,319,401) |
| Net Position- Beginning of Year | | | | | 33,271,077 |
| Net Position - End of Year | | | | | \$ 29,951,676 |

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

City of Highland Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2023

| | General Fund | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 7,784,354 | \$ 2,559,902 | \$ 5,086,274 | \$ 15,430,530 |
| Materials and Supplies Inventory | 15,894 | - | 142,780 | 158,674 |
| Accrued Interest Receivable | 89,086 | - | - | 89,086 |
| Accounts Receivable | 93,888 | - | 28,266 | 122,154 |
| Payments in Lieu of Taxes Receivable | - | - | 80,120 | 80,120 |
| Interfund Receivable | 38,000 | - | - | 38,000 |
| Intergovernmental Receivable | 121,131 | 4,200 | 337,588 | 462,919 |
| Prepaid Items | 270,067 | - | 22,997 | 293,064 |
| Municipal Income Taxes Receivable | 2,834,157 | - | 229,797 | 3,063,954 |
| Property Taxes Receivable | 924,942 | - | 751,803 | 1,676,745 |
| Special Assessments Receivable | 13,770 | - | 370,397 | 384,167 |
| Lease Receivable | 251,165 | - | - | 251,165 |
| Total Assets | 12,436,454 | 2,564,102 | 7,050,022 | 22,050,578 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 78,130 | \$ 106,798 | \$ 86,433 | \$ 271,361 |
| Accrued Wages and Benefits | 345,800 | - | 3,102 | 348,902 |
| Contracts Payable | - | 65,886 | - | 65,886 |
| Intergovernmental Payable | 57,872 | - | 120,750 | 178,622 |
| Matured Compensated Absences Payable | 179,579 | - | 8,292 | 187,871 |
| Retainage Payable | - | 324,401 | - | 324,401 |
| Interfund Payable | - | - | 38,000 | 38,000 |
| Unearned Revenue | - | - | 167,408 | 167,408 |
| Total Liabilities | 661,381 | 497,085 | 423,985 | 1,582,451 |
| Deferred Inflows of Resources: | | | | |
| Property Tax, PILOT, and Lease | 1,128,881 | - | 807,717 | 1,936,598 |
| Unavailable Revenue - Delinquent Property Tax | 29,586 | - | 24,206 | 53,792 |
| Unavailable Revenue - Income Tax | 1,069,135 | - | 86,687 | 1,155,822 |
| Unavailable Revenue - Other | 158,516 | - | 610,237 | 768,753 |
| Total Deferred Inflows of Resources | 2,386,118 | - | 1,528,847 | 3,914,965 |
| Fund Balances: | | | | |
| Nonspendable | 301,537 | - | 165,777 | 467,314 |
| Restricted | - | 2,067,017 | 4,873,745 | 6,940,762 |
| Committed | - | - | 89,632 | 89,632 |
| Assigned | 2,070,830 | - | - | 2,070,830 |
| Unassigned (Deficit) | 7,016,588 | - | (31,964) | 6,984,624 |
| Total Fund Balances | 9,388,955 | 2,067,017 | 5,097,190 | 16,553,162 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 12,436,454 | \$ 2,564,102 | \$ 7,050,022 | \$ 22,050,578 |

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

City of Highland Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities December 31, 2023

| | |
|---|----------------------|
| Total Governmental Funds Balance | \$ 16,553,162 |
|---|----------------------|

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 | 45,732,810 |
|--|------------|

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

| | | |
|---------------------------|------------------|-----------|
| Delinquent Property taxes | \$ 53,792 | |
| Municipal income taxes | 1,155,822 | |
| Special assessments | 384,167 | |
| Intergovernmental | 339,703 | |
| Charges for services | 44,883 | |
| Total | <u>1,978,367</u> | 1,978,367 |

| | |
|--|----------|
| In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. | (24,387) |
|--|----------|

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

| | | |
|-----------------------------|---------------------|--------------|
| Deferred Outflows - Pension | 8,026,288 | |
| Deferred Inflows - Pension | (873,166) | |
| Net Pension Liability | (22,798,528) | |
| Deferred Outflows- OPEB | 1,346,100 | |
| Deferred Inflows-OPEB | (1,319,839) | |
| Net OPEB Liability | (1,384,369) | |
| Total | <u>(17,003,514)</u> | (17,003,514) |

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 | (\$12,585,000) | |
| Unamortized bond premiums | (572,809) | |
| OPWC Loan | (2,086,206) | |
| Leases and subscription payable | (84,703) | |
| Compensated absences | (1,956,044) | |
| Total | <u>(17,284,762)</u> | (17,284,762) |

| | |
|--|-----------------------------|
| Net Position of Governmental Activities | <u>\$ 29,951,676</u> |
|--|-----------------------------|

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2023

| | General Fund | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|----------------------------|----------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 900,551 | \$ - | \$ 812,994 | \$ 1,713,545 |
| Municipal Income Taxes | 11,280,976 | - | 894,620 | 12,175,596 |
| Other Taxes | 3,754 | - | 33,738 | 37,492 |
| Intergovernmental | 416,492 | 550,000 | 786,228 | 1,752,720 |
| Interest | 376,899 | 162,943 | 431 | 540,273 |
| Fees, Licenses, and Permits | 413,531 | - | 151 | 413,682 |
| Charges for Services | 682,894 | 59,926 | 323,438 | 1,066,258 |
| Contributions and Donations | 14,924 | - | 101,825 | 116,749 |
| Special Assessments | 6,325 | - | 351,476 | 357,801 |
| Lease | 17,321 | - | - | 17,321 |
| All Other Revenues | 52,038 | - | 91,526 | 143,564 |
| Total Revenues | <u>14,165,705</u> | <u>772,869</u> | <u>3,396,427</u> | <u>18,335,001</u> |
| EXPENDITURES | | | | |
| Security of Persons and Property | 8,162,608 | 332,000 | 1,099,006 | 9,593,614 |
| Public Health Services | 106,133 | - | - | 106,133 |
| Leisure Time Activities | 68,214 | 532,804 | 581,013 | 1,182,031 |
| Community Environment | 132,813 | - | - | 132,813 |
| Basic Utility Services | 2,521,119 | - | - | 2,521,119 |
| Transportation | - | 818,637 | 729,237 | 1,547,874 |
| General Government | 2,531,505 | 4,012,242 | 62,929 | 6,606,676 |
| Capital Outlay | 103,584 | - | 422,520 | 526,104 |
| Debt Service: | | | | |
| Principal Retirement | - | - | 1,022,629 | 1,022,629 |
| Interest and Fiscal Charges | 18,880 | - | 332,331 | 351,211 |
| Debt Issuance Costs | 743 | - | - | 743 |
| Total Expenditures | <u>13,645,599</u> | <u>5,695,683</u> | <u>4,249,665</u> | <u>23,590,947</u> |
| Excess of Revenues (Under) Expenditures | <u>520,106</u> | <u>(4,922,814)</u> | <u>(853,238)</u> | <u>(5,255,946)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Capital Assets | 3,250 | - | 1,190 | 4,440 |
| Issuance of Lease Payable | 32,204 | - | - | 32,204 |
| Issuance of Subscription Payable | 71,380 | - | - | 71,380 |
| Transfers In | - | - | 800,000 | 800,000 |
| Transfers Out | (800,000) | - | - | (800,000) |
| Total Other Financing Sources (Uses) | <u>(693,166)</u> | <u>-</u> | <u>801,190</u> | <u>108,024</u> |
| Net Change in Fund Balances | <u>(173,060)</u> | <u>(4,922,814)</u> | <u>(52,048)</u> | <u>(5,147,922)</u> |
| Fund Balances - Beginning of Year | 9,560,855 | 6,989,831 | 5,122,090 | 21,672,776 |
| Increase (Decrease) in Inventory | 1,160 | - | 27,148 | 28,308 |
| Fund Balances - End of Year | <u><u>\$ 9,388,955</u></u> | <u><u>\$ 2,067,017</u></u> | <u><u>\$ 5,097,190</u></u> | <u><u>\$ 16,553,162</u></u> |

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

City of Highland 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, 2023

| | | |
|---|--|-------------|
| Net Change in Fund Balances-Total Governmental Funds | | (5,147,922) |
|---|--|-------------|

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

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

| | | |
|----------------|-------------|-----------|
| Capital Outlay | 4,930,638 | |
| Depreciation | (2,117,832) | |
| Total | | 2,812,806 |

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets.

(14,193)

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

| | | |
|---------------------------|-----------|-----------|
| Delinquent property taxes | (11,351) | |
| Municipal income taxes | 291,518 | |
| Special assessments | (453,243) | |
| Intergovernmental | 1,432 | |
| Charges for services | 6,635 | |
| Total | | (165,009) |

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of leases and subscriptions.

(103,584)

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

1,041,510

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

| | | |
|---------|-----------|-----------|
| Pension | 1,439,957 | |
| OPEB | 30,445 | |
| Total | | 1,470,402 |

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

| | | |
|---------|-------------|-------------|
| Pension | (3,226,272) | |
| OPEB | 59,452 | |
| Total | | (3,166,820) |

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 | (139,226) | |
| Accrued interest on bonds | 3,307 | |
| Amortization of bond premiums | 61,020 | |
| Change in inventory | 28,308 | |
| Total | | (46,591) |

| | | |
|--|--|---------------------------|
| Change in Net Position of Governmental Activities | | <u><u>(3,319,401)</u></u> |
|--|--|---------------------------|

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2023

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| <u>Revenues</u> | | | | |
| Property Taxes | \$ 898,354 | \$ 900,551 | \$ 900,551 | \$ - |
| Municipal Income Taxes | 11,280,487 | 11,308,077 | 11,308,077 | - |
| Intergovernmental | 418,951 | 419,976 | 419,976 | - |
| Interest | 80,002 | 80,198 | 80,198 | - |
| Fees, Licenses, and Permits | 435,282 | 436,347 | 436,347 | - |
| Charges for Services | 716,746 | 718,499 | 718,499 | - |
| Contributions and Donations | 14,888 | 14,924 | 14,924 | - |
| Special Assessments | 6,310 | 6,325 | 6,325 | - |
| All Other Revenues | 267,263 | 267,917 | 267,917 | - |
| Total Revenues | <u>14,118,282</u> | <u>14,152,814</u> | <u>14,152,814</u> | <u>-</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Security of Persons & Property | 8,579,855 | 8,596,871 | 8,174,291 | 422,580 |
| Public Health Services | 138,994 | 141,539 | 140,029 | 1,510 |
| Leisure Time Activities | 64,194 | 78,248 | 68,214 | 10,034 |
| Community Environment | 157,679 | 157,679 | 139,061 | 18,618 |
| Basic Utility Services | 2,786,532 | 2,790,032 | 2,584,686 | 205,346 |
| General Government | 2,941,866 | 2,963,807 | 2,569,313 | 394,494 |
| Total Expenditures | <u>14,669,120</u> | <u>14,728,176</u> | <u>13,675,594</u> | <u>1,052,582</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(550,838)</u> | <u>(575,362)</u> | <u>477,220</u> | <u>1,052,582</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Sale of Capital Assets | 3,250 | 3,250 | 3,250 | - |
| Advances In | 23,000 | 23,000 | 23,000 | - |
| Advances Out | - | (38,000) | (38,000) | - |
| Transfers In | - | - | - | - |
| Transfers Out | (800,000) | (800,000) | (800,000) | - |
| Total Other Financings Sources (Uses) | <u>(773,750)</u> | <u>(811,750)</u> | <u>(811,750)</u> | <u>-</u> |
| Net Change in Fund Balance | (1,324,588) | (1,387,112) | (334,530) | 1,052,582 |
| Fund Balance - Beginning of Year | 7,868,510 | 7,868,510 | 7,868,510 | - |
| Prior Year Encumbrances Appropriated | 247,463 | 247,463 | 247,463 | - |
| Fund Balance - End of Year | <u>\$ 6,791,385</u> | <u>\$ 6,728,861</u> | <u>\$ 7,781,443</u> | <u>\$ 1,052,582</u> |

See accompanying notes to the basic financial statements.

City of Highland Heights, Ohio

Statement of Fiduciary Net Position Custodial Fund December 31, 2023

| | <u>Custodial Fund</u> |
|---|-----------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 494 |
| Total Assets | <u>494</u> |
| NET POSITION | |
| Restricted For: | |
| Individuals, Organizations, and Other Governments | 494 |
| Total Net Position | <u>\$ 494</u> |

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

City of Highland Heights, Ohio

Statement of Changes in Fiduciary Net Position Custodial Fund For the Year Ended December 31, 2023

| | <u>Custodial Fund</u> |
|---|-----------------------|
| ADDITIONS | |
| Licenses, Permits, & Fees Distributions for Other Governments | \$ 2,629 |
| Total Additions | <u>2,629</u> |
| DEDUCTIONS | |
| Fines and Forefietures Distributions to Other Governments | <u>2,546</u> |
| Total Deductions | <u>2,546</u> |
| Net Increase in Fiduciary Net Position | 83 |
| Net Position - Beginning of Year | <u>411</u> |
| Net Position - End of Year | <u><u>\$ 494</u></u> |

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

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City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 1: **REPORTING ENTITY**

The City of Highland Heights, Ohio (the City) was incorporated as a Village in 1920 after it separated from Mayfield Township. In October 1966, the electors of Highland Heights approved a charter that established home rule under a Council-Mayor form of government. In 1969, Highland Heights became a City upon attaining a population of 5,000.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of the City and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization; **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete; or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The Mayfield City School District is located partially within the City's boundaries, but is excluded from the City's financial statements based on the above criteria. The City has no component units.

The City is associated with four organizations which are defined as jointly governed organizations. The jointly governed organizations are Community Partnership on Aging Council of Governments, the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 17 to the basic financial statements. The City is also associated with Northern Ohio Risk Management Association which is defined as a risk sharing pool as presented in Note 14. The City is associated with Ohio Government Benefit Cooperative (OGBC) which is defined as an insurance purchasing pool as presented in Note 18.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

The more significant of the City's accounting policies are described below.

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.

The statement of net position presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the City.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds

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

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City and/or the general laws of Ohio.

Capital Improvement Fund – The Capital Improvement Fund accounts for different resources that are used to construct, equip and furnish the capital assets used by the various departments of the City, as well as for various infrastructure projects.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and custodial funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's fiduciary funds are custodial funds. The City has one custodial fund used to account for the OBBC 1% and 3% collection fees.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

C. **Measurement Focus**

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources along with current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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; fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflow/inflows, and the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations are recognized in the fiscal 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

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. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The City reported unearned revenue related to contractor bonds and deposits and unspent proceeds of ARPA money.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding, pension and OPEB reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Note 11 and Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, leases, and OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2023, but which were levied to finance year 2024 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position (see Note 11 and Note 12).

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

E. Equity in Pooled Cash and Investments

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

During 2023, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposits, U.S. Treasury Securities, a U.S. Government Bond, Sweep Account, Mutual Fund, and Municipal Bonds. The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value

For 2023, 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 \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2023 amounted to \$376,899, which includes \$104,343 assigned from other funds.

F. Materials and Supplies Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory consists of expendable supplies held for consumption.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2023, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$7,500. The City's infrastructure consists of roads, water mains, sanitary sewers, storm sewers, culverts, bridges, and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated or amortized 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>Governmental Activities Estimated Lives</u> |
|--------------------------|--|
| Building and Improvement | 20 - 40 years |
| Machinery and Equipment | 5 - 20 years |
| Furniture and Fixtures | 15 years |
| Vehicles | 4 - 8 years |
| Infrastructure | 50 years |

The City is reporting intangible right to use assets related to lease equipment and subscription-based information technology arrangements (SBITAs). The intangible assets are being amortized in a systematic and rational manner of the shorter of the lease/SBITA term or the useful life of the underlying asset.

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund receivables/payables". These amounts are eliminated in the governmental activities' column of the statement of net position.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

J. **Compensated Absences** (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds which the employees who have accumulated the leave are paid.

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 and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability/asset should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

L. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

L. **Fund Balance** (Continued)

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

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

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

M. **Net Position**

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

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net investments 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. Net Position is reported as restricted 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 governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2023.

P. **Estimates**

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

Q. **Budgetary Data**

An annual budget is prepared for all funds of the City. The City's budgetary process, which is governed by State law, is described below:

Tax Budget - The City must submit a budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following calendar year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1 and issues a "Certificate of Estimated Resources" limiting the maximum amount the City may appropriate from a given fund during the year.

On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must prepare its appropriations so that the total appropriations from each fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources.

Appropriations - A temporary appropriation ordinance may be passed to control expenditures for the period January 1 through March 31. Before April 1, an annual appropriation ordinance must be passed for the period January 1 to December 31. The appropriation ordinance, which controls expenditures at the major object level, may be amended or supplemented by Council during the year as required. The major object level is further defined by grouping level. The administration may move budgeted amounts within each object grouping level. During 2023, there were few amendments to the appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

Q. **Budgetary Data** (Continued)

Budgeted Level of Expenditure - Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges.

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as restricted, committed, and assigned fund balances for subsequent year expenditures in the governmental funds.

Lapsing of Appropriations - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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

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

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City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES**

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

GASB Implementation Guide 2021-1 provides clarification on issues related to previously established GASB guidance. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position.

GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The implementation of this Statement did not have an effect on the financial statements of the City.

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City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis);
- c. Advances in and advances out are operating transactions (budget basis) as opposed to when the liability is incurred (GAAP basis);
- d. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, and assigned fund balance (GAAP basis);
- e. Some funds are included in the General Fund (GAAP Basis), but have separate legally adopted budgets (budget basis).

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

| Net Change in Fund Balance | |
|-----------------------------|----------------------------|
| | General Fund |
| GAAP Basis | \$ (173,060) |
| Increase (Decrease) Due to: | |
| Revenue Accruals | (116,475) |
| Expenditure Accruals | 171,521 |
| Advances In | 23,000 |
| Advances out | (38,000) |
| Adjustment for Encumbrances | (201,516) |
| Budgetary Basis | <u><u>\$ (334,530)</u></u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 5: 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 public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

1. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.

2. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. **Cash on Hand**

At December 31, 2023, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

B. **Deposits**

At December 31, 2023, the carrying amount of all City deposits was \$3,554,791. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2023, \$550,000 of the City's bank balance of \$3,711,893 was covered by Federal Depository Insurance and \$2,736,872 was uninsured and collateralized with securities held by the pledging financial institution's trust department agent, but not in the City's name, and \$425,021 was uninsured and uncollateralized. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

B. **Deposits** (Continued)

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

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

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

C. **Investments**

The City has a formal investment policy and utilizes a pooled investment concept for all its funds to maximize its investment program. 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. 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 table on the next page identifies the City's recurring measurement values and level inputs as of December 31, 2023. As previously discussed, Star Ohio is reported at its net asset value. The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs). As of December 31, 2023, fair value was \$216,758 below the City's net cost for investments.

D. **Interest Rate Risk**

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

E. **Credit Risk**

The credit risks of the City's investments are in the table below. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

F. **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City's investment in negotiable certificates of deposit were fully insured by Federal depository insurance.

G. **Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer. The City's investment in negotiable certificates of deposit represents 27.6 percent of the City's total investments. The remaining investments of the City, STAR Ohio, municipal bond, Repurchase Agreement, U.S. Government bond, Money Market Mutual Fund, and U.S. Treasury represent 4.5 percent, 10.3 percent, 0.2 percent, 24.5 percent, 4 percent, and 28.9 percent respectively, of the City's total investments.

Cash and investments at year-end were as follows:

| Cash and Investment Type | Measurement Value | Credit Rating (*) | Level Input | Investment Maturity (in years) | | |
|-----------------------------------|----------------------|----------------------|----------------|--------------------------------|---------------------|---------------------|
| | | | | <1 | 1-2 | 3-5 |
| STAR Ohio | \$ 536,187 | AAAm | N/A | \$ 536,187 | \$ - | \$ - |
| Negotiable CD's | 3,273,602 | N/A | 2 | 1,214,592 | 1,576,157 | 482,853 |
| Municipal Bond | 1,228,848 | A+/AA/A- | 2 | 1,228,848 | - | - |
| Repurchase Agreement | 23,290 | N/A | N/A | 23,290 | - | - |
| U.S. Government Bond | 2,905,897 | AA+ | 2 | 1,246,088 | 1,174,477 | 485,332 |
| Money Market Mutual Fund | 475,679 | AAA | N/A | 475,679 | - | - |
| U.S. Treasury / Agency Securities | 3,432,030 | N/A | 2 | 1,273,659 | 1,922,909 | 235,462 |
| Total Investments | 11,875,533 | | | <u>\$ 5,998,343</u> | <u>\$ 4,673,543</u> | <u>\$ 1,203,647</u> |
| Carrying Amount of Deposits | 3,554,791 | | | | | |
| Petty Cash | 700 | | | | | |
| Total Cash and Investments | <u>\$ 15,431,024</u> | | | | | |

* Credit rating was obtained from Standard & Poor's for all investments.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 6: RECEIVABLES

Receivables at December 31, 2023, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, leases, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2023 for real and public property taxes represents collections of 2022 taxes. Property tax payments received during 2023 for tangible personal property (other than public utility property) are for 2023 taxes.

2023 real property taxes are levied after October 1, 2023, on the assessed value as of January 1, 2023, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2023 real property taxes are collected in and intended to finance 2024.

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. 2023 public utility property taxes which became a lien at December 31, 2023, are levied after October 1, 2023, and are collected in 2024 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2023, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2023 property tax receipts were based are as follows:

| | |
|----------------------------------|----------------------|
| Real Property | \$456,170,620 |
| Public Utility Tangible Property | <u>5,571,490</u> |
| Total | <u>\$461,742,110</u> |

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

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County's Fiscal Officer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County's Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2023, and for which there is an enforceable legal claim. In the General, General Obligation Bond Retirement, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2023 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

Effective January 1, 2007, an income tax of 2.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 100 percent of the City's current tax rate. The allocation of income tax revenue to the City's various funds is determined by City Ordinance.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed and collected by the County's Fiscal Officer. The County's Fiscal Officer periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

At December 31, 2023, special assessments expected to be collected in more than one year amount to \$384,167 including delinquent special assessments of \$27,738.

D. **Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and is reported in the General Fund.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

| <u>Governmental Funds</u> | |
|--|--------------------------|
| Gasoline Tax | \$ 252,191 |
| Local Government | 64,864 |
| Homestead and Rollback Reimbursement | 102,303 |
| Auto Registration | 33,818 |
| Permissive Tax | 5,543 |
| Miscellaneous | 4,200 |
| Total Intergovernmental Receivables | <u>\$ 462,919</u> |

F. **Lease Receivable**

On January 1, 2022, City of Highland Heights entered into a lease as Lessor for the use of a cell phone tower. An initial lease receivable was recorded in the amount of \$274,237. As of December 31, 2023, the value of the lease receivable is \$251,165. The lessee is required to make monthly fixed payments of \$1,785. The lease has an interest rate of 4.00%. The value of the deferred inflow of resources as of December 31, 2023 was \$239,596, and the City recognized lease revenue of \$17,321 during the fiscal year.

The following table is a schedule of future payments to be received by the City.

| <u>Fiscal Year</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | <u>Total Payments</u> |
|--------------------|---------------------------|--------------------------|--------------------------|
| 2024 | \$ 12,178 | \$ 9,826 | \$ 22,004 |
| 2025 | 12,954 | 9,324 | 22,279 |
| 2026 | 13,766 | 8,792 | 22,557 |
| 2027 | 14,614 | 8,225 | 22,839 |
| 2028 | 15,500 | 7,625 | 23,125 |
| 2029 - 2033 | 92,242 | 27,790 | 120,032 |
| 2034 - 2037 | 89,911 | 7,275 | 97,186 |
| | <u>\$ 251,165</u> | <u>\$ 78,857</u> | <u>\$ 330,022</u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 7: FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | Capital Improvement | Other Governmental Funds | Total |
|-----------------------------------|----------------------------|----------------------------|--------------------------------|-----------------------------|
| <i>Nonspendable</i> | | | | |
| Prepaid Items | \$ 270,067 | \$ - | \$ 22,997 | \$ 293,064 |
| Inventories | 15,894 | - | 142,780 | 158,674 |
| Unclaimed Funds | 15,576 | - | - | 15,576 |
| <i>Total Nonspendable</i> | <u>301,537</u> | <u>-</u> | <u>165,777</u> | <u>467,314</u> |
| <i>Restricted for</i> | | | | |
| Police Pension | - | - | 169,969 | 169,969 |
| Fire Pension | - | - | 115,994 | 115,994 |
| Parks and Recreation | - | - | 1,291,951 | 1,291,951 |
| Other Law Enforcement | - | - | 99,977 | 99,977 |
| Streets and Highways | - | - | 1,198,619 | 1,198,619 |
| Street Lighting | - | - | 508,171 | 508,171 |
| FEMA Fire Assistance | - | - | 46,542 | 46,542 |
| Misc Trust | - | - | 1,588 | 1,588 |
| Other Grants | - | - | 707 | 707 |
| Debt Service | - | - | 1,440,227 | 1,440,227 |
| Capital Improvements | - | 2,067,017 | - | 2,067,017 |
| <i>Total Restricted</i> | <u>-</u> | <u>2,067,017</u> | <u>4,873,745</u> | <u>6,940,762</u> |
| <i>Committed to</i> | | | | |
| Parks and Recreation Improvements | - | - | 26,501 | 26,501 |
| Street Trees | - | - | 16,814 | 16,814 |
| White Road Development | - | - | 46,317 | 46,317 |
| <i>Total Committed</i> | <u>-</u> | <u>-</u> | <u>89,632</u> | <u>89,632</u> |
| <i>Assigned to</i> | | | | |
| Purchases on Order | | | | |
| Basic Utility | 32,897 | - | - | 32,897 |
| Community Environment | 4,781 | - | - | 4,781 |
| General Government | 30,098 | - | - | 30,098 |
| Public Health | 33,896 | - | - | 33,896 |
| Security of Persons and Property | 54,181 | - | - | 54,181 |
| Fiscal Year 2024 Appropriations | 1,914,977 | - | - | 1,914,977 |
| <i>Total Assigned</i> | <u>2,070,830</u> | <u>-</u> | <u>-</u> | <u>2,070,830</u> |
| <i>Unassigned</i> | 7,016,588 | - | (31,964) | 6,984,624 |
| Total Fund Balances | <u><u>\$ 9,388,955</u></u> | <u><u>\$ 2,067,017</u></u> | <u><u>\$ 5,097,190</u></u> | <u><u>\$ 16,553,162</u></u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 8: INTERFUND TRANSFERS AND BALANCES

A. Interfund Transfers

Transfers made during the year end December 31, 2023 were as follow:

| | Transfers Out | Transfers In | |
|---------|---------------|-----------------------------------|------------|
| | | Nonmajor Governmental Funds | Total |
| General | | \$ 800,000 | \$ 800,000 |
| Total | | \$ 800,000 | \$ 800,000 |

The General Fund transferred \$365,000 to the Police Pension Fund and \$435,000 to the Fire Pension Fund for pension obligation payments.

B. Interfund Balances

Interfund loans consisted of the following amounts “interfund receivable/payable” at December 31, 2023, as reported on the fund financial statements.

| | Receivable | Payable |
|-----------------------------|------------|-----------|
| Governmental Activities: | | |
| General | \$ 38,000 | \$ - |
| Nonmajor Governmental Funds | - | 38,000 |
| Total | \$ 38,000 | \$ 38,000 |

The primary purpose of the interfund balances is to cover costs in specific funds where anticipated revenues were not received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balance are expected to be repaid within one year. Interfund balances at December 31, 2023 consisted of \$38,000 due to the General Fund from the NOPEC POC Grant. Interfund balances between governmental funds are eliminated on the governmental-wide financial statements; therefore, no internal balances at December 31, 2023 are reported on the statement of net position.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 9: **CAPITAL ASSETS**

A summary of changes in capital assets during 2023 follows:

| | Balance 12/31/2022 | Additions | Disposals | Balance 12/31/2023 |
|--|-----------------------|---------------------|-----------------------|-----------------------|
| <u>Governmental Activities</u> | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$ 1,679,660 | \$ - | \$ - | \$ 1,679,660 |
| Construction in Progress | 1,052,239 | 1,531,265 | (2,222,640) | 360,864 |
| Total Capital Assets Not Being Depreciated | 2,731,899 | 1,531,265 | (2,222,640) | 2,040,524 |
| <i>Capital Assets, being depreciated/amortized:</i> | | | | |
| Land Improvements | 2,446,787 | - | - | 2,446,787 |
| Buildings | 7,939,090 | 4,280,023 | (7,701) | 12,211,412 |
| Machinery and Equipments | 3,356,616 | 214,483 | (26,104) | 3,544,995 |
| Furniture and Fixtures | 88,968 | - | - | 88,968 |
| Vehicles | 4,201,242 | 417,462 | (119,487) | 4,499,217 |
| Intangible right-to-use lease asset - Equipment | - | 32,204 | - | 32,204 |
| Intangible right-to-use SBITA | - | 71,380 | - | 71,380 |
| Infrastructures | | | | |
| Roads | 31,414,586 | 606,461 | - | 32,021,047 |
| Water Mains | 14,446,875 | - | - | 14,446,875 |
| Sanitary Sewers | 13,862,512 | - | - | 13,862,512 |
| Storm Sewers | 17,676,637 | - | - | 17,676,637 |
| Culverts | 219,885 | - | - | 219,885 |
| Bridges | 216,549 | - | - | 216,549 |
| Traffic Signals | 91,404 | - | - | 91,404 |
| Totals at Historical Cost | 95,961,151 | 5,622,013 | (153,292) | 101,429,872 |
| Less Accumulated Depreciation/Amortization: | | | | |
| Land Improvements | (2,087,078) | (86,139) | - | (2,173,217) |
| Buildings | (6,349,179) | (213,289) | 2,503 | (6,559,965) |
| Machinery and Equipments | (1,935,378) | (159,493) | 23,092 | (2,071,779) |
| Furniture and Fixtures | (50,100) | (3,471) | - | (53,571) |
| Vehicles | (2,848,332) | (310,812) | 113,504 | (3,045,640) |
| Intangible right-to-use lease asset - Equipment | - | (4,917) | - | (4,917) |
| Intangible right-to-use SBITA | - | (10,707) | - | (10,707) |
| Infrastructures | | | | |
| Roads | (15,401,379) | (496,258) | - | (15,897,637) |
| Water Mains | (7,835,075) | (247,095) | - | (8,082,170) |
| Sanitary Sewers | (8,129,086) | (252,095) | - | (8,381,181) |
| Storm Sewers | (10,817,807) | (323,532) | - | (11,141,339) |
| Culverts | (143,811) | (3,868) | - | (147,679) |
| Bridges | (95,281) | (4,330) | - | (99,611) |
| Traffic Signals | (66,347) | (1,826) | - | (68,173) |
| Total Accumulated Depreciation/Amortization | (55,758,853) | (2,117,832) * | 139,099 | (57,737,586) |
| Total Capital Assets, being Depreciated/Amortized, Net | 40,202,298 | 3,504,181 | (14,193) | 43,692,286 |
| Governmental Activities Capital Assets, Net | \$ 42,934,197 | \$ 5,035,446 | \$ (2,236,833) | \$ 45,732,810 |

* See breakout of depreciation expense on the following page.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 9: **CAPITAL ASSETS** (Continued)

*Depreciation/amortization expense was charged to governmental functions as follows:

| | |
|--|----------------------------|
| General Government | \$ 111,246 |
| Security of Persons and Property | 374,213 |
| Basic Utilities | 826,590 |
| Leisure Time Activities | 138,195 |
| Transportation | 667,588 |
| Total Depreciation/Amortization Expense | <u>\$ 2,117,832</u> |

NOTE 10: **COMPENSATED ABSENCES**

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be converted by each employee, with the exception of firemen, who can convert 1,345 hours.

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy does not permit vacation leave to be carried forward unless authorized by the Mayor or department head. City employees are paid for earned unused vacation leave at the time of termination of employment.

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

A. **Net Pension Liability**

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

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

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

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent. Cost-of-living adjustments for OPERS members in 2022 will be 3 percent for all those eligible to receive the annual benefit increase.

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 Tradition pension plan and the Combined Plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

Beginning in 2022, the combined plan was consolidated under the traditional pension plan (defined benefit plan) and the combined plan is no longer available for new hires beginning in 2022.

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

| | State and Local |
|--|--------------------|
| 2023 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee * | 10.0 % |
| 2023 Actual Contribution Rates | |
| Employer: | |
| Pension ** | 14.0 % |
| Post-Employment Health Care Benefits ** | 0.0 |
| Total Employer | 14.0 % |
| Employee | 10.0 % |

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

** These pension and employer health care rates are for the traditional plan. Beginning July 1, 2022, the employer contribution rate for the combined plan is allocated 2 percent health care with the remainder going to pension. The employer contributions rate for the member-directed plan allocated 4 percent for health care with remainder going to pension.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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 2023 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2023. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$423,494 for fiscal year ending December 31, 2023.

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

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

The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the members' base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

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

| | Police | Firefighters |
|--|---------|--------------|
| 2023 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |
| 2023 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 | 0.50 |
| Total Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,016,463 for 2023.

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

The net pension liability for OPERS was measured as of December 31, 2022, and the total pension liability/asset 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, 2022, and was determined by rolling forward the total pension liability as of January 1, 2022, to December 31, 2022. 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. The following page is information related to the proportionate share and pension expense:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

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

| | OPERS Traditional Pension Plan | OP&F | Total |
|---|--------------------------------------|---------------|---------------|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.020161% | 0.1745519% | |
| Proportion of the Net Pension Liability Current Measurement Date | 0.020323% | 0.1768086% | |
| Change in Proportionate Share | 0.000162% | 0.0022567% | |
| Proportionate Share of the Net Pension Liability | \$ 6,003,423 | \$ 16,795,105 | \$ 22,798,528 |
| Pension Expense | \$ 955,289 | \$ 2,270,983 | \$ 3,226,272 |

At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS Traditional Pension Plan | OP&F | Total |
|---|--------------------------------------|---------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 1,711,165 | \$ 2,445,160 | \$ 4,156,325 |
| Differences between expected and actual experience | 199,409 | 251,924 | 451,333 |
| Changes of assumptions | 63,421 | 1,514,863 | 1,578,284 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 52,482 | 347,907 | 400,389 |
| City contributions subsequent to the measurement date | 423,494 | 1,016,463 | 1,439,957 |
| Total Deferred Outflows of Resources | <u>\$ 2,449,971</u> | <u>\$ 5,576,317</u> | <u>\$ 8,026,288</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ - | \$ 382,643 | \$ 382,643 |
| Changes of assumptions | - | 327,500 | 327,500 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | 163,023 | 163,023 |
| Total Deferred Inflows of Resources | <u>\$ -</u> | <u>\$ 873,166</u> | <u>\$ 873,166</u> |

\$1,439,957 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or increase to the net pension asset in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense on the following page:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

| Year Ending December 31: | OPERS Traditional Pension Plan | OP&F | Total |
|--------------------------|--------------------------------------|---------------------|---------------------|
| | | | |
| 2024 | \$ 279,438 | \$ 464,986 | \$ 744,424 |
| 2025 | 405,112 | 899,495 | 1,304,607 |
| 2026 | 503,681 | 956,036 | 1,459,717 |
| 2027 | 838,246 | 1,395,600 | 2,233,846 |
| 2028 | - | (29,429) | (29,429) |
| Total | <u>\$ 2,026,477</u> | <u>\$ 3,686,688</u> | <u>\$ 5,713,165</u> |

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented on the following page:

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City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

| | <u>Traditional Pension Plan</u> | <u>Combined Plan</u> |
|---|---|---|
| Wage Inflation | | |
| Current Measurement Date: | 2.75 percent | 2.75 percent |
| Prior Measurement Date: | 2.75 percent | 2.75 percent |
| Future Salary Increases, including inflation | | |
| Current Measurement Date: | 2.75 to 10.75 percent including wage inflation | 2.75 to 8.25 percent including wage inflation |
| Prior Measurement Date: | 2.75 to 10.75 percent including wage inflation | 2.75 to 8.25 percent including wage inflation |
| COLA or Ad Hoc COLA | | |
| Pre 1/7/2013 retirees: | 3 percent, simple | 3 percent, simple |
| Post 1/7/2013 retirees: | | |
| Current Measurement Date: | 3 percent, simple through 2023, then 2.05 percent simple | 3 percent, simple through 2023, then 2.05 percent simple |
| Prior Measurement Date: | 3 percent, simple through 2022, then 2.05 percent simple | 3 percent, simple through 2022, then 2.05 percent simple |
| Investment Rate of Return | | |
| Current Measurement Date: | 6.9 percent | 6.9 percent |
| Prior Measurement Date: | 6.9 percent | 6.9 percent |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five-year period ended December 31, 2020.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

OPERS manages investments in three investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 12.1 percent for 2022.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected 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. Best estimates of the geometric real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2022, these best estimates are summarized in the following table:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Geometric) |
|------------------------|----------------------|--|
| Fixed Income | 22.00 % | 2.62 % |
| Domestic Equities | 22.00 | 4.60 |
| Real Estate | 13.00 | 3.27 |
| Private Equity | 15.00 | 7.53 |
| International Equities | 21.00 | 5.51 |
| Risk Parity | 2.00 | 4.37 |
| Other investments | 5.00 | 3.27 |
| Total | 100.00 % | |

Discount Rate The discount rate used to measure the total pension liability was 6.9 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability/Asset to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 6.9 percent, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

| City's proportionate share of the net pension liability | 1% Decrease (5.90%) | Current Discount Rate (6.90%) | 1% Increase (7.90%) |
|--|------------------------|-------------------------------------|------------------------|
| Traditional Pension Plan | \$ 8,992,928 | \$ 6,003,423 | \$ 3,516,692 |

F. **Actuarial Assumptions – OP&F**

OP&F's total pension liability as of December 31, 2022 is based on the results of an actuarial valuation date of January 1, 2022, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2022, are presented below:

| | |
|----------------------------|--|
| Valuation Date | January 1, 2022, with actuarial liabilities rolled forward to December 31, 2022 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 7.50 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | 3.25 percent per annum, compounded annually, consisting of inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Cost of Living Adjustments | 2.2 percent simple |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Mortality for service retirees is based on the Pub-2010 Below-Median Safety Amount-Weighted Healthy Retiree mortality table with rates adjusted by 96.2% for males and 98.7% for females. All rates are projected using the MP-2021 Improvement Scale.

Mortality for disabled retirees is based on the Pub-2010 Safety Amount-Weighted Disabled Retiree mortality table with rates adjusted by 135% for males and 97.9% for females. All rates are projected using the MP-2021 Improvement Scale.

The most recent experience study was completed December 31, 2021.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2022 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 | 18.60 | 4.80 |
| International Equity | 12.40 | 5.50 |
| Core Fixed Income * | 25.00 | 2.50 |
| U.S. Inflation Linked Bonds * | 15.00 | 2.00 |
| High Yield Fixed Income | 7.00 | 4.40 |
| Private Real Estate | 12.00 | 5.30 |
| Private Markets | 10.00 | 7.90 |
| Midstream Energy Infrastructure | 5.00 | 5.90 |
| Private Credit | 5.00 | 5.90 |
| Real Assets | 8.00 | 5.90 |
| Gold | 5.00 | 3.60 |
| Commodities | 2.00 | 3.60 |
| Total | <u>125.00 %</u> | |

Note: Assumptions are geometric

* levered 2.5x

** Geometric mean, net of expected inflation

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 11: **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 1.25 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 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 22,155,984 | \$ 16,795,105 | \$ 12,338,606 |

NOTE 12: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability/Asset**

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

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

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

GASB 75 assumes that any liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Effective January 1, 2022 the Combined Plan is no longer available for member selection.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

Currently, Medicare-eligible retirees can select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Retirees and eligible dependents enrolled in Medicare Parts A and B have the option to enroll in a Medicare supplemental plan with the assistance of the OPERS Medicare Connector. The OPERS Medicare Connector is a relationship with a vendor selected by OPERS to assist retirees, spouses, and dependents with selecting a medical and pharmacy plan. Monthly allowances, based on years of service and the age at which the retiree first enrolled in OPERS coverage, are deposited into an HRA.

For non-Medicare retirees and eligible dependents, OPERS sponsors medical and prescription coverage through a professionally managed self-insured plan. An allowance to offset a portion of the monthly premium is offered to retirees and eligible dependents. The allowance is based on the retiree's years of service and age when they first enrolled in OPERS coverage.

The base HRA allowance is determined by OPERS. Retirees receive a percentage of the base allowance, calculated based on years of qualifying service credit and age when the retiree first enrolled in OPERS health care. Monthly allowances range between 51 percent and 90 percent of the base allowance.

OPERS members enrolled in the Traditional Pension Plan or Combined Plan retiring with an effective date of January 1, 2022 or after must meet the following health care eligibility requirements to receive an HRA allowance:

1. Medicare Retirees – Medicare-eligible with a minimum of 20 years of qualifying service credit.
2. Non-Medicare Retirees – Non-Medicare retirees qualify based on the following age-and-service criteria:
 - a. Group A – 30 years of qualifying service credit at any age;
 - b. Group B – 32 years of qualifying service credit at any age or 31 years of qualifying service credit and minimum age 52;
 - c. Group C – 32 years of qualifying service credit and minimum age 55; or,
 - d. A retiree from groups A, B or C who qualifies for an unreduced pension, but a portion of their service credit is not health care qualifying service, can still qualify for health care at age 60 if they have at least 20 years of qualifying health care service credit.

Retirees who don't meet the requirement for coverage as a non-Medicare participant can become eligible for coverage at age 65 if they have at least 20 years of qualifying service. Members with a retirement date prior to January 1, 2022 who were eligible to participate in the OPERS health care program will continue to be eligible after January 1, 2022, as summarized in the following table:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

| Retirement Date | Group A | | Group B | | Group C | |
|---|---------|---------|----------|----------|---------|---------|
| | Age | Service | Age | Service | Age | Service |
| December 1, 2014 or Prior | Any | 10 | Any | 10 | Any | 10 |
| January 1, 2015 through December 31, 2021 | 60 | 20 | 52 60 | 31 20 | 55 | 32 |
| | Any | 30 | Any | 32 | 60 | 20 |

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Annual Comprehensive Financial Report 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 covered payroll. In 2023, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. For 2023, OPERS did not allocate employer contributions to health care for members in the Traditional Pension Plan. Effective July 1, 2022, OPERS began allocating 2.0 percent of the employer contribution rate to health care funding for the Combined Plan. 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 2023 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$6,417 for 2023.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) a cost-sharing, multiple-employer defined post-employment healthcare plan that provides various levels of health care to retired, disabled and beneficiaries, as well as their dependents. On January 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses. A summary of the full benefit provisions can be found in OP&F's annual comprehensive financial report.

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2023, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The City's contractually required contribution to OP&F was \$24,028 for 2023.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2021, rolled forward to the measurement date of December 31, 2022, 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, 2022, and was determined by rolling forward the total OPEB liability as of January 1, 2022, to December 31, 2022. The City's proportion of the net OPEB liability/asset 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:

| | OPERS | OP&F | Total |
|--|--------------|--------------|--------------|
| Proportion of the Net OPEB Liability/Asset | | | |
| Prior Measurement Date | 0.019692% | 0.1745519% | |
| Proportion of the Net OPEB Liability | | | |
| Current Measurement Date | 0.019911% | 0.1768086% | |
| Change in Proportionate Share | 0.000219% | 0.0022567% | |
| Proportionate Share of the Net OPEB | | | |
| Liability | \$ 125,543 | \$ 1,258,826 | \$ 1,384,369 |
| OPEB Expense | \$ (216,740) | \$ 157,288 | \$ (59,452) |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | OPERS | OP&F | Total |
|---|-------------------|---------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ - | \$ 75,120 | \$ 75,120 |
| Changes of assumptions | 122,621 | 627,327 | 749,948 |
| Net difference between projected and actual earnings on pension plan investments | 249,332 | 107,969 | 357,301 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 5,169 | 128,117 | 133,286 |
| City contributions subsequent to the measurement date | 6,417 | 24,028 | 30,445 |
| Total Deferred Outflows of Resources | <u>\$ 383,539</u> | <u>\$ 962,561</u> | <u>\$ 1,346,100</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 31,315 | \$ 248,216 | \$ 279,531 |
| Changes of assumptions | 10,090 | 1,029,617 | 1,039,707 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | 601 | 601 |
| Total Deferred Inflows of Resources | <u>\$ 41,405</u> | <u>\$ 1,278,434</u> | <u>\$ 1,319,839</u> |

\$30,445 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 2024.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

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&F</u> | <u>Total</u> |
|--------------------------|---------------------|-------------------|------------------|
| Year Ending December 31: | | | |
| 2023 | \$ (391,410) | \$ 128,828 | \$ (262,582) |
| 2024 | (132,008) | 103,168 | (28,840) |
| 2025 | (64,248) | 107,800 | 43,552 |
| 2026 | (42,227) | 23,006 | (19,221) |
| 2027 | - | 45,031 | 45,031 |
| Thereafter | - | 42,601 | 42,601 |
| Total | <u>\$ (629,893)</u> | <u>\$ 450,434</u> | <u>(179,459)</u> |

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan 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, 2021, rolled forward to the measurement date of December 31, 2022.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| | |
|---|---|
| Wage Inflation | |
| Current Measurement Date: | 2.75 percent |
| Prior Measurement Date: | 2.75 percent |
| Projected Salary Increases, including inflation | |
| Current Measurement Date: | 2.75 to 10.75 percent, including wage inflation |
| Prior Measurement Date: | 2.75 to 10.75 percent, including wage inflation |
| Single Discount Rate: | |
| Current Measurement Date: | 5.22 percent |
| Prior Measurement Date: | 6.00 percent |
| Investment Rate of Return | 6.00 percent |
| Municipal Bond Rate | |
| Current Measurement Date: | 4.05 percent |
| Prior Measurement Date: | 1.84 percent |
| Health Care Cost Trend Rate | |
| Current Measurement Date: | 5.50 percent initial, 3.50 percent ultimate in 2036 |
| Prior Measurement Date: | 5.50 percent initial, 3.50 percent ultimate in 2034 |

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five-year period ended December 31, 2020.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

During 2022, 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 was a loss of 15.6 percent for 2022.

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 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. The table below displays the Board-approved asset allocation policy for 2021 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Geometric) |
|------------------------------|----------------------|--|
| Fixed Income | 34.00 % | 2.56 % |
| Domestic Equities | 26.00 | 4.60 |
| Real Estate Investment Trust | 7.00 | 4.70 |
| International Equities | 25.00 | 5.51 |
| Risk Parity | 2.00 | 4.37 |
| Other investments | 6.00 | 1.84 |
| Total | 100.00 % | |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

Discount Rate A single discount rate of 5.22 percent was used to measure the OPEB liability on the measurement date of December 31, 2022. A single discount rate of 6.00 percent was used to measure the OPEB asset on the measurement date of December 31, 2021. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 4.05 percent.

The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2054. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2054, 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 Asset to Changes in the Discount Rate

The following table presents the City's proportionate share of the net OPEB asset calculated using the single discount rate of 5.22 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (4.22 percent) or one-percentage-point higher (6.22) than the current rate:

| | 1% Decrease (4.22%) | Current Discount Rate (5.22%) | 1% Increase (6.22%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$ 427,290 | \$ 125,543 | \$ 123,448 |

Sensitivity of the City's Proportionate Share of the Net OPEB Asset 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 asset calculated using the assumed trend rates, and the expected net OPEB asset if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2023 is 5.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

| | Current Health Care Cost Trend Rate | | |
|---|--|------------|-------------|
| | 1% Decrease | Assumption | 1% Increase |
| City's proportionate share of the net OPEB liability | \$ 117,674 | \$ 125,543 | \$ 134,399 |

F. **ACTUARIAL ASSUMPTIONS – OP&F**

OP&F's total OPEB liability as of December 31, 2022, is based on the results of an actuarial valuation date of January 1, 2022, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial calculations reflect a long-term perspective. 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 on the following page.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

| | |
|----------------------------|---|
| Valuation Date | January 1, 2022, with actuarial liabilities rolled forward to December 31, 2022 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 7.5 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Single discount rate: | |
| Current measurement date | 4.27 percent |
| Prior measurement date | 2.84 percent |
| Cost of Living Adjustments | 2.2 percent simple |

Mortality for service retirees is based on the Pub-2010 Below-Median Safety Amount-Weighted Healthy Retiree mortality table with rates adjusted by 96.2% for males and 98.7% for females. All rates are projected using the MP-2021 Improvement Scale.

Mortality for disabled retirees is based on the Pub-2010 Safety Amount-Weighted Disabled Retiree mortality table with rates adjusted by 135% for males and 97.9% for females. All rates are projected using the MP-2021 Improvement Scale.

The most recent experience study was completed for the five-year period ended December 31, 2021.

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, 2022, are summarized on the following page:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

| <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 | 18.60 | 4.80 |
| Non-US Equity | 12.40 | 5.50 |
| Core Fixed Income * | 25.00 | 2.50 |
| U.S. Inflation Linked Bonds * | 15.00 | 2.00 |
| High Yield Fixed Income | 7.00 | 4.40 |
| Private Real Estate | 12.00 | 5.30 |
| Private Markets | 10.00 | 7.90 |
| Midstream Energy Infrastructure | 5.00 | 5.90 |
| Private Credit | 5.00 | 5.90 |
| Real Assets | 8.00 | 5.90 |
| Gold | 5.00 | 3.60 |
| Commodities | 2.00 | 3.60 |
| Total | <u>125.00 %</u> | |

Note: Assumptions are geometric

* levered 2.5x

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 in core fixed income and asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 4.27 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 7.50 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the long-term assumed rate of return on investments of 7.50 percent was applied to periods before December 31, 2035, resulting in a discount rate of 4.27 percent.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.27 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.27 percent), or one percentage point higher (5.27 percent) than the current rate.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

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

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

| | 1% Decrease (3.27%) | Current Discount Rate (4.27%) | 1% Increase (5.27%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$ 1,550,126 | \$ 1,258,826 | \$ 1,012,894 |

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City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2023, are as follow:

| | Principal Outstanding 12/31/2022 | Additions | Deletions | Principal Outstanding 12/31/2023 | Amounts Due in One Year |
|--|--|----------------------|-----------------------|--|-------------------------------|
| <u>Governmental Activities</u> | | | | | |
| <u>General Obligation Bonds</u> | | | | | |
| 2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0% | 480,000 | - | (110,000) | 370,000 | 115,000 |
| 2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125% | 155,000 | - | (75,000) | 80,000 | 80,000 |
| 2021 \$7,910,000 Various Purpose 1.0-5.0% | 7,850,000 | - | (520,000) | 7,330,000 | 550,000 |
| 2022 \$5,000,000 Various Purpose 2.0-3.0% | 5,000,000 | - | (195,000) | 4,805,000 | 205,000 |
| Total General Obligation Bonds | 13,485,000 | - | (900,000) | 12,585,000 | 950,000 |
| <u>Direct Borrowings</u> | | | | | |
| <u>Ohio Public Works Commission</u> | | | | | |
| 2008 \$629,941 Highland-Bishop Intersection Improvement, 0% | 267,724 | - | (31,496) | 236,228 | 31,497 |
| 2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0% | 436,113 | - | (34,340) | 401,773 | 34,340 |
| 2015 \$1,703,770 Highland Road Water Main Replacement, 0% | 1,504,998 | - | (56,793) | 1,448,205 | 56,792 |
| Total Ohio Public Works Commission | 2,208,835 | - | (122,629) | 2,086,206 | 122,629 |
| <u>Other Long-term Liabilities</u> | | | | | |
| Unamortized Bond Premium | \$ 633,829 | \$ - | \$ (61,020) | \$ 572,809 | \$ - |
| Net Pension Liability | | | | | |
| OPERS | 1,754,089 | 4,249,334 | - | 6,003,423 | - |
| OP&F | 10,904,990 | 5,890,115 | - | 16,795,105 | - |
| Total Net Pension Liability | 12,659,079 | 10,139,449 | - | 22,798,528 | - |
| Net OPEB Liability | | | | | |
| OPERS | - | 125,543 | - | 125,543 | - |
| OP&F | 1,913,238 | - | (654,412) | 1,258,826 | - |
| Total OPEB Liability | 1,913,238 | 125,543 | (654,412) | 1,384,369 | - |
| Lease Payable | - | 32,204 | (4,156) | 28,048 | 6,354 |
| Subscription Payable | - | 71,380 | (14,725) | 56,655 | 13,677 |
| Compensated Absences | 1,816,818 | 670,065 | (530,839) | 1,956,044 | 565,816 |
| Total Other Long-term Liabilities | 17,022,964 | 11,038,641 | (1,265,152) | 26,796,453 | 585,847 |
| Total Governmental Long-Term Liabilities | \$ 32,716,799 | \$ 11,038,641 | \$ (2,287,781) | \$ 41,467,659 | \$ 1,658,476 |

The 2007 bonds were issued for the construction of Aberdeen Business Park.

In 2021, the City issued \$7,910,000 for Various Purpose Improvements. The interest rate ranges from 1.0%-5.0% and will mature in 2036. These bonds will be repaid from the General Bond Retirement Fund.

In 2022, the City issued \$5,000,000 for Various Purpose Improvements. The interest rate ranges from 2.0%-3.0% and will mature in 2041. These bonds will be repaid from the General Bond Retirement Fund.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

Defeased Debt

On October 5, 2011, the City issued \$5,145,000 in bonds for the purpose of refunding all of the City's outstanding various purpose improvements bonds, series 1997 and series 2001. The refunding bonds were issued to refund at a lower overall interest cost all of the outstanding 2011 bonds maturing after December 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 1997 and 2001 bonds was \$6,506,803 versus \$5,851,963 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$654,840. The present value of the difference between the two debt streams using the arbitrage yield was \$596,290 which constitutes the economic gain on the transaction. The 2011 refunding balance was \$80,000 as of December 31, 2023.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond Retirement Fund, except for the 2007 Aberdeen Business Park Improvement Bond. This bond is paid out of the Special Assessment Bond Retirement Fund since it is payable from proceeds of assessments.

In 2015, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$1,703,770. These funds are being used for Highland Road Water Main Replacement project which was started in 2016. The debt is a zero percent interest loan over thirty years. As of December 31, 2023, the loan balance for the portion of the project completed was \$1,448,205.

The City's direct borrowing from OPWC contain a provision that in the event of default the amount of such default shall bear interest thereafter at the rate of 8 percent per annum until the date of payment, and outstanding amounts become immediately due. Also, OPWC may direct the county treasurer to pay the outstanding amount from portion of the local government fund that would otherwise be appropriated to the City.

The OPWC loans will be paid by revenues transferred from the General Fund and from special assessment proceeds. Compensated absences will be paid from the General Fund, the Street Construction, Maintenance, and Repair Fund, and the Parks and Recreation Fund.

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2023, the City's overall debt margin was \$36,688,237 with an unvoted debt margin of \$13,879,706.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2023, from the general resources of the City are as follows:

| Year | General Obligation Bonds | | OPWC Loans | Total | |
|-----------|---------------------------------|---------------------|---------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Principal | Interest |
| 2024 | \$ 950,000 | \$ 292,638 | \$ 122,629 | \$ 1,072,629 | \$ 292,638 |
| 2025 | 920,000 | 250,738 | 122,629 | 1,042,629 | 250,738 |
| 2026 | 965,000 | 209,037 | 122,629 | 1,087,629 | 209,037 |
| 2027 | 870,000 | 165,288 | 122,629 | 992,629 | 165,288 |
| 2028 | 880,000 | 154,187 | 122,629 | 1,002,629 | 154,187 |
| 2029-2033 | 4,190,000 | 584,353 | 534,405 | 4,724,405 | 584,353 |
| 2034-2038 | 2,870,000 | 239,100 | 342,336 | 3,212,336 | 239,100 |
| 2039-2043 | 940,000 | 37,900 | 283,962 | 1,223,962 | 37,900 |
| 2044-2048 | - | - | 283,962 | 283,962 | - |
| 2049 | - | - | 28,396 | - | - |
| Totals | <u>\$ 12,585,000</u> | <u>\$ 1,933,241</u> | <u>\$ 2,086,206</u> | <u>\$ 14,642,810</u> | <u>\$ 1,933,241</u> |

Leases Payable

On April 1, 2023, the City entered into a 60-month lease as lessee for the use of copiers. An initial lease liability was recorded in the amount of \$32,204. The City is required to make monthly fixed payments of \$578. The lease has an interest rate of 2.31%. The value of the right to use asset as of December 31, 2023 of \$32,204 with accumulated amortization of \$4,917.

The following is a schedule of future agreements under the lease:

| Year | Principal | Interest | Total Payments |
|------|------------------|-----------------|-------------------|
| 2024 | \$ 6,354 | \$ 581 | \$ 6,935 |
| 2025 | 6,503 | 433 | 6,936 |
| 2026 | 6,654 | 281 | 6,935 |
| 2027 | 6,810 | 125 | 6,935 |
| 2028 | 1,727 | 7 | 1,734 |
| | <u>\$ 28,048</u> | <u>\$ 1,427</u> | <u>\$ 29,475</u> |

Subscription (SBITA) Payable

On April 1, 2023, the City entered into a 60-month lease for the right to use subscription software. An initial subscription liability was recorded in the amount of \$71,380. The City is required to make annual fixed payments of \$15,000. The subscription has an interest rate of 2.31%. The value of the right to use asset – subscription as of December 31, 2023 of \$71,380 with accumulated amortization of \$10,707.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

The following is a schedule of future agreements under the subscription agreement:

| Year | Principal | Interest | Total Payments |
|------|------------------|-----------------|-------------------|
| 2024 | 13,677 | \$ 1,323 | \$ 15,000 |
| 2025 | 13,997 | 1,003 | 15,000 |
| 2026 | 14,323 | 677 | 15,000 |
| 2027 | 14,658 | 342 | 15,000 |
| | <u>\$ 56,655</u> | <u>\$ 3,345</u> | <u>\$ 60,000</u> |

NOTE 14: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION**

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

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

In 2023, the City of Highland Heights paid \$76,260 in premiums from the General Fund, which represents 4.8 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

NOTE 15: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among General Fund departments and other funds in proportion to the protection provided for the assets in those General Fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 15: **RISK MANAGEMENT** (Continued)

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the General Fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical and prescription benefits are provided through Medical Mutual of Ohio from January 1 through December 31, 2023. Dental and vision benefits are provided through Delta Dental and Vision Benefits of America. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits through MMO is \$885.68 for single coverage and \$2,390.94 for family coverage. The monthly premium for dental benefits is \$32.68 for single coverage and \$94.81 for family coverage.

NOTE 16: **CONTINGENT LIABILITIES**

City management, after consultation with the City's Director of Law, is of the opinion that the ultimate disposition of such lawsuits will not result in a material adverse effect on the City's financial position.

NOTE 17: **JOINTLY GOVERNED ORGANIZATION**

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2023, the City contributed \$67,054. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 17: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

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

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. The City contributed \$44,040 to ESCOG in 2023.

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council ("NOPEC"). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 240 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time ensuring 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 from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The City did not contribute to NOPEC in 2023. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of four Board members, with one council member appointed from each of the four communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2023

NOTE 18: INSURANCE PURCHASING POOL

Ohio Government Benefit Cooperative

The City participates in the Ohio Government Benefit Cooperative (OGBC), a claims servicing and group purchasing pool comprised of six cities. The OGBC is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. The Board of Directors is the governing body of the consortium. Each City appoints one individual to be its representative on the Board of Directors. The City of Willoughby serves as the fiscal agent for OGBC. OGBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and their eligible dependents and designated beneficiaries of such employees. Participants pay an initial \$500 membership fee to OGBC. OGBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OGBC's third party administrator. Medical Mutual is the Administrator of the OGBC. During 2021, the City elected to participate in the joint insurance program for medical, prescription drug, and vision coverage. Financial information can be obtained by contacting Diane Bosley, Fiscal Officer, One Public Square, Willoughby, Ohio 44094.

NOTE 19: OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2023, the City's commitments for encumbrances in the governmental funds were as follows:

| | Encumbrances Outstanding |
|-----------------------------|-----------------------------|
| General Fund | \$ 247,462 |
| Capital Improvement | 2,068,257 |
| Nonmajor Governmental Funds | 426,732 |
| Total | <u>\$ 2,742,451</u> |

NOTE 20: ACCOUNTABILITY

Fund balances at December 31, 2023 included the following individual fund deficits:

| | Deficit |
|-----------------------------|---------|
| Nonmajor Governmental Funds | |
| NOPEC Grant | 31,964 |

The General Fund is liable for any deficits in this fund and provides transfers when cash is required not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities in accordance with generally accepted accounting principles (GAAP).

**INDEPENDENT AUDITOR'S 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**

City of Highland Heights
Cuyahoga County
5827 Highland Road
Highland Heights, Ohio 44143

To the Members of City Council:

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 Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on 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.

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.

A handwritten signature in cursive script that reads "Zupka & Associates".

Zupka & Associates
Certified Public Accountants

July 30, 2024

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2023**

The prior audit report, as of December 31, 2022, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

INDEPENDENT AUDITOR'S REPORT

City of Highland Heights
Cuyahoga County
5827 Highland Road
Highland Heights, Ohio 44143

To the Members of City Council:

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 Highland Heights as of December 31, 2022, and the respective changes in financial position and the budgetary comparisons for the General Fund and the American Rescue Plan Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

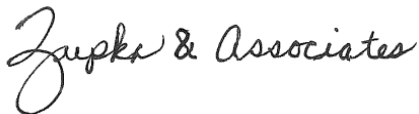
As discussed in Note 3 to the basic financial statements, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 is the responsibility of management and, 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 July 30, 2024, 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 solely 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 the effectiveness of the City's 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.



Zupka & Associates
Certified Public Accountants

July 30, 2024

City of Highland Heights, Ohio

Statement of Net Position December 31, 2022

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 20,786,933 |
| Materials and Supplies Inventory | 130,366 |
| Accounts Receivable | 134,607 |
| Accrued Interest Receivable | 32,281 |
| Intergovernmental Receivable | 458,890 |
| Payments in Lieu of Taxes Receivable | 78,427 |
| Prepaid Items | 297,026 |
| Municipal Income Taxes Receivable | 3,034,945 |
| Property Taxes Receivable | 1,689,922 |
| Special Assessments Receivable | 837,410 |
| Lease Receivable | 262,601 |
| Nondepreciable Capital Assets | 2,731,899 |
| Depreciable Capital Assets | 40,202,298 |
| Net OPEB Asset | 616,784 |
| Total Assets | 71,294,389 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension | 4,472,490 |
| OPEB | 1,140,509 |
| Total Deferred Outflows of Resources | 5,612,999 |
| LIABILITIES | |
| Accounts Payable | 409,386 |
| Accrued Wages and Benefits | 293,113 |
| Intergovernmental Payable | 165,605 |
| Matured Compensated Absences Payable | 174,384 |
| Accrued Interest Payable | 27,694 |
| Retainage Payable | 121,384 |
| Unearned Revenue | 822,275 |
| Long-term Liabilities: | |
| Due within One Year | 1,553,467 |
| Due in More than One Year: | |
| Net Pension Liability (see Note 11) | 12,659,079 |
| Net OPEB Liability (see Note 12) | 1,913,238 |
| Other Amounts | 16,591,015 |
| Total Liabilities | 34,730,640 |
| DEFERRED INFLOWS OF RESOURCES | |
| Property Taxes and Lease | 1,941,109 |
| Pension | 5,672,502 |
| OPEB | 1,292,060 |
| Total Deferred Inflows of Resources | 8,905,671 |
| NET POSITION | |
| Net Investment in Capital Assets | 27,849,862 |
| Restricted for: | |
| Debt Service | 2,257,509 |
| Capital Projects | 5,728,159 |
| Street Construction, Maintenance, and Repairs | 1,507,453 |
| Parks and Recreation | 1,150,502 |
| Other Purposes | 418,259 |
| Unrestricted | (5,640,667) |
| Total Net Position | \$ 33,271,077 |

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

City of Highland Heights, Ohio

Statement of Activities For the Year Ended December 31, 2022

| | | Program Revenues | | | Net (Expense) |
|---|----------------------|---------------------|---------------------|----------------|----------------------|
| | | Charges for | Operating | Capital | Revenue and |
| | Expenses | Services | Grants and | Grants and | Changes in Net |
| | | | Contributions | Contributions | Position |
| | | | | | Total |
| Primary Government: | | | | | |
| Governmental activities: | | | | | |
| Security of Persons and Property | \$ 8,897,952 | \$ 501,751 | \$ 35,367 | \$ - | \$ (8,360,834) |
| Public Health Services | 101,125 | - | - | - | (101,125) |
| Leisure Time Activities | 783,241 | 334,174 | 100 | - | (448,967) |
| Community Environment | 100,711 | 334,821 | 71,126 | 189,579 | 494,815 |
| Basic Utility Services | 2,694,901 | - | 2,835 | 46,026 | (2,646,040) |
| Transportation | 1,765,362 | 220,557 | 595,403 | 233,273 | (716,129) |
| General Government | 3,298,121 | 312,611 | 658,277 | 8,993 | (2,318,240) |
| Interest and Fiscal Charges | 279,520 | - | - | - | (279,520) |
| Total Governmental activities | \$ 17,920,933 | \$ 1,703,914 | \$ 1,363,108 | 477,871 | (14,376,040) |
| General Revenues: | | | | | |
| Property Taxes levied for: | | | | | |
| General Purposes | | | | | 904,147 |
| Debt Service Purpose | | | | | 86,854 |
| Other Purposes | | | | | 659,168 |
| Municipal Income Taxes levied for: | | | | | |
| General Purposes | | | | | 10,656,499 |
| Debt Service Purpose | | | | | 841,930 |
| Other Taxes | | | | | 64,631 |
| Payments in Lieu of Taxes | | | | | 78,264 |
| Grants & Entitlements not restricted to specific programs | | | | | 359,891 |
| Investment Income | | | | | (384,801) |
| All Other Revenues | | | | | 153,094 |
| Total General Revenues | | | | | 13,419,677 |
| Change in Net Position | | | | | (956,363) |
| Net Position- Beginning of Year | | | | | 34,227,440 |
| Net Position - End of Year | | | | | \$ 33,271,077 |

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

City of Highland Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2022

| | General Fund | American Rescue Plan | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------------|------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 7,687,769 | \$ 679,482 | \$ 7,300,320 | \$ 5,119,362 | \$ 20,786,933 |
| Materials and Supplies Inventory | 14,734 | - | - | 115,632 | 130,366 |
| Accrued Interest Receivable | 32,281 | - | - | - | 32,281 |
| Accounts Receivable | 124,100 | - | - | 10,507 | 134,607 |
| Payments in Lieu of Taxes Receivable | - | - | - | 78,427 | 78,427 |
| Interfund Receivable | 23,000 | - | - | - | 23,000 |
| Intergovernmental Receivable | 128,960 | - | - | 329,930 | 458,890 |
| Prepaid Items | 274,064 | - | - | 22,962 | 297,026 |
| Municipal Income Taxes Receivable | 2,807,324 | - | - | 227,621 | 3,034,945 |
| Property Taxes Receivable | 921,316 | - | - | 768,606 | 1,689,922 |
| Special Assessments Receivable | 10,605 | - | - | 826,805 | 837,410 |
| Lease Receivable | 262,601 | - | - | - | 262,601 |
| Total Assets | 12,286,754 | 679,482 | 7,300,320 | 7,499,852 | 27,766,408 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts Payable | \$ 108,125 | \$ - | \$ 189,105 | \$ 112,156 | \$ 409,386 |
| Accrued Wages and Benefits | 276,341 | - | - | 16,772 | 293,113 |
| Intergovernmental Payable | 46,362 | - | - | 119,243 | 165,605 |
| Matured Compensated Absences Payable | 166,613 | - | - | 7,771 | 174,384 |
| Retainage Payable | - | - | 121,384 | - | 121,384 |
| Interfund Payable | - | - | - | 23,000 | 23,000 |
| Unearned Revenue | - | 679,482 | - | 142,793 | 822,275 |
| Total Liabilities | 597,441 | 679,482 | 310,489 | 421,735 | 2,009,147 |
| Deferred Inflows of Resources: | | | | | |
| Property Tax, PILOT, and Lease | 1,140,088 | - | - | 801,021 | 1,941,109 |
| Unavailable Revenue - Delinquent Property Tax | 35,828 | - | - | 29,315 | 65,143 |
| Unavailable Revenue - Income Tax | 799,481 | - | - | 64,823 | 864,304 |
| Unavailable Revenue - Other | 153,061 | - | - | 1,060,868 | 1,213,929 |
| Total Deferred Inflows of Resources | 2,128,458 | - | - | 1,956,027 | 4,084,485 |
| Fund Balances: | | | | | |
| Nonspendable | 304,374 | - | - | 138,594 | 442,968 |
| Restricted | - | - | 6,989,831 | 4,928,599 | 11,918,430 |
| Committed | - | - | - | 70,320 | 70,320 |
| Assigned | 1,317,421 | - | - | - | 1,317,421 |
| Unassigned (Deficit) | 7,939,060 | - | - | (15,423) | 7,923,637 |
| Total Fund Balances | 9,560,855 | - | 6,989,831 | 5,122,090 | 21,672,776 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 12,286,754 | \$ 679,482 | \$ 7,300,320 | \$ 7,499,852 | \$ 27,766,408 |

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

City of Highland Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities December 31, 2022

| | |
|---|----------------------|
| Total Governmental Funds Balance | \$ 21,672,776 |
|---|----------------------|

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 42,934,197

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

| | | |
|---------------------------|-------------------|-----------|
| Delinquent Property taxes | \$ 65,143 | |
| Municipal income taxes | 864,304 | |
| Special assessments | 837,410 | |
| Intergovernmental | 338,271 | |
| Charges for services | 38,248 | |
| | <u> </u> | |
| Total | | 2,143,376 |

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (27,694)

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

| | | |
|-----------------------------|-------------------|--------------|
| Deferred Outflows - Pension | 4,472,490 | |
| Deferred Inflows - Pension | (5,672,502) | |
| Net Pension Liability | (12,659,079) | |
| Deferred Outflows- OPEB | 1,140,509 | |
| Deferred Inflows-OPEB | (1,292,060) | |
| Net OPEB Liability | (1,913,238) | |
| Net OPEB Asset | 616,784 | |
| | <u> </u> | |
| Total | | (15,307,096) |

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 | (\$13,485,000) | |
| Unamortized bond premiums | (633,829) | |
| OPWC Loan | (2,208,835) | |
| Compensated absences | (1,816,818) | |
| | <u> </u> | |
| Total | | <u>(18,144,482)</u> |

| | |
|--|-----------------------------|
| Net Position of Governmental Activities | \$ <u>33,271,077</u> |
|--|-----------------------------|

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2022

| | General Fund | American Rescue Plan | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------------|------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| Property Taxes | \$ 913,189 | \$ - | \$ - | \$ 751,801 | \$ 1,664,990 |
| Municipal Income Taxes | 10,708,269 | - | - | 846,127 | 11,554,396 |
| Other Taxes | - | - | 9,499 | 59,365 | 68,864 |
| Payments in Lieu of Taxes | - | - | - | 78,264 | 78,264 |
| Intergovernmental | 891,424 | - | 308,292 | 801,035 | 2,000,751 |
| Interest | (453,710) | - | 68,831 | 78 | (384,801) |
| Fees, Licenses, and Permits | 473,765 | - | - | 355 | 474,120 |
| Charges for Services | 628,583 | - | - | 337,774 | 966,357 |
| Contributions and Donations | 9,840 | - | - | - | 9,840 |
| Special Assessments | 9,460 | - | - | 468,768 | 478,228 |
| Lease | 17,320 | - | - | - | 17,320 |
| All Other Revenues | 68,244 | - | - | 85,155 | 153,399 |
| Total Revenues | 13,266,384 | - | 386,622 | 3,428,722 | 17,081,728 |
| EXPENDITURES | | | | | |
| Security of Persons and Property | 7,585,499 | | 441,878 | 1,035,221 | 9,062,598 |
| Public Health Services | 100,425 | - | - | - | 100,425 |
| Leisure Time Activities | 70,474 | - | 217,107 | 651,584 | 939,165 |
| Community Environment | 140,764 | - | - | - | 140,764 |
| Basic Utility Services | 2,446,038 | - | - | - | 2,446,038 |
| Transportation | - | - | 2,248,643 | 873,032 | 3,121,675 |
| General Government | 2,938,153 | - | 1,174,908 | 68,149 | 4,181,210 |
| Debt Service: | | | | | |
| Principal Retirement | - | - | - | 379,794 | 379,794 |
| Interest and Fiscal Charges | - | - | - | 332,390 | 332,390 |
| Debt Issuance Costs | - | - | - | 165,173 | 165,173 |
| Total Expenditures | 13,281,353 | - | 4,082,536 | 3,505,343 | 20,869,232 |
| Excess of Revenues (Under) Expenditures | (14,969) | - | (3,695,914) | (76,621) | (3,787,504) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Sale of Capital Assets | 507 | - | - | - | 507 |
| General Obligation Bonds Issued | - | - | 5,000,000 | - | 5,000,000 |
| Premium on Debt Issuance | - | - | - | 169,443 | 169,443 |
| Transfers In | - | - | 2,145 | 800,000 | 802,145 |
| Transfers Out | (800,000) | - | - | (2,145) | (802,145) |
| Total Other Financing Sources (Uses) | (799,493) | - | 5,002,145 | 967,298 | 5,169,950 |
| Net Change in Fund Balances | (814,462) | - | 1,306,231 | 890,677 | 1,382,446 |
| Fund Balances - Beginning of Year | 10,383,045 | - | 5,683,600 | 4,232,073 | 20,298,718 |
| Increase (Decrease) in Inventory | (7,728) | - | - | (660) | (8,388) |
| Fund Balances - End of Year | \$ 9,560,855 | \$ - | \$ 6,989,831 | \$ 5,122,090 | \$ 21,672,776 |

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

City of Highland 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, 2022

| | | |
|--|-------------|------------------|
| Net Change in Fund Balances-Total Governmental Funds | | 1,382,446 |
| <i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. | | |
| Capital Outlay | 3,142,419 | |
| Depreciation | (2,238,961) | |
| Total | | 903,458 |
| In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. | | (33,125) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Delinquent property taxes | (14,821) | |
| Municipal income taxes | (55,967) | |
| Special assessments | (59,768) | |
| Intergovernmental | 12,842 | |
| Charges for services | 578 | |
| Total | | (117,136) |
| Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of bonds and the related premium. | | (5,169,443) |
| Repayment of debt principal expenditures in the Governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. | | 379,794 |
| Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows | | |
| Pension | 1,345,083 | |
| OPEB | 27,908 | |
| Total | | 1,372,991 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. | | |
| Pension | (515,370) | |
| OPEB | 910,342 | |
| Total | | 394,972 |
| 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 | (114,802) | |
| Accrued interest on bonds | (8,150) | |
| Amortization of bond premiums | 61,020 | |
| Change in inventory | (8,388) | |
| Total | | (70,320) |
| Change in Net Position of Governmental Activities | | <u>(956,363)</u> |

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2022

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| <u>Revenues</u> | | | | |
| Property Taxes | \$ 941,979 | \$ 913,189 | \$ 913,189 | \$ - |
| Municipal Income Taxes | 10,680,723 | 10,354,290 | 10,354,290 | - |
| Intergovernmental | 914,281 | 886,338 | 886,338 | - |
| Interest | 39,796 | 38,580 | 38,580 | - |
| Fees, Licenses, and Permits | 463,227 | 449,069 | 449,069 | - |
| Charges for Services | 643,083 | 623,429 | 623,429 | - |
| Contributions and Donations | 16,995 | 16,476 | 16,476 | - |
| Special Assessments | 9,758 | 9,460 | 9,460 | - |
| All Other Revenues | 289,946 | 281,084 | 281,084 | - |
| Total Revenues | <u>13,999,788</u> | <u>13,571,915</u> | <u>13,571,915</u> | <u>-</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Security of Persons & Property | 8,200,397 | 8,164,586 | 7,674,499 | 490,087 |
| Public Health Services | 115,690 | 128,815 | 114,058 | 14,757 |
| Leisure Time Activities | 73,073 | 78,285 | 70,474 | 7,811 |
| Community Environment | 154,277 | 156,777 | 142,150 | 14,627 |
| Basic Utility Services | 2,679,678 | 2,685,678 | 2,514,079 | 171,599 |
| General Government | 3,271,518 | 3,298,015 | 2,985,825 | 312,190 |
| Total Expenditures | <u>14,494,633</u> | <u>14,512,156</u> | <u>13,501,085</u> | <u>1,011,071</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(494,845)</u> | <u>(940,241)</u> | <u>70,830</u> | <u>1,011,071</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Sale of Capital Assets | 5,000 | 507 | 507 | - |
| Advances In | 49,431 | 49,431 | 49,431 | - |
| Advances Out | - | (23,000) | (23,000) | - |
| Transfers In | 25,000 | 25,000 | 25,000 | - |
| Transfers Out | (800,000) | (825,000) | (825,000) | - |
| Total Other Financings Sources (Uses) | <u>(720,569)</u> | <u>(773,062)</u> | <u>(773,062)</u> | <u>-</u> |
| Net Change in Fund Balance | (1,215,414) | (1,713,303) | (702,232) | 1,011,071 |
| Fund Balance - Beginning of Year | 8,376,501 | 8,376,501 | 8,376,501 | - |
| Prior Year Encumbrances Appropriated | 194,241 | 194,241 | 194,241 | - |
| Fund Balance - End of Year | <u>\$ 7,355,328</u> | <u>\$ 6,857,439</u> | <u>\$ 7,868,510</u> | <u>\$ 1,011,071</u> |

See accompanying notes to the basic financial statements.

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – American Rescue Plan For the Year Ended December 31, 2022

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 438,540 | \$ 992,042 | \$ 992,042 | \$ - |
| Total Revenues | <u>438,540</u> | <u>992,042</u> | <u>992,042</u> | <u>-</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 771,272 | 774,773 | 645,292 | 129,481 |
| Total Expenditures | <u>771,272</u> | <u>774,773</u> | <u>645,292</u> | <u>129,481</u> |
| Excess of Revenues Over (Under) Expenditures | (332,732) | 217,269 | 346,750 | 129,481 |
| Net Change in Fund Balance | (332,732) | 217,269 | 346,750 | 129,481 |
| Cash Fund Balance - Beginning of Year | 332,732 | 332,732 | 332,732 | - |
| Cash Fund Balance - End of Year | <u>\$ -</u> | <u>\$ 550,001</u> | <u>\$ 679,482</u> | <u>\$ 129,481</u> |

See accompanying notes to the basic financial statements.

City of Highland Heights, Ohio

Statement of Fiduciary Net Position Custodial Fund December 31, 2022

| | <u>Custodial Fund</u> |
|---|-----------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 411 |
| Total Assets | <u>411</u> |
| NET POSITION | |
| Restricted For: | |
| Individuals, Organizations, and Other Governments | 411 |
| Total Net Position | <u>\$ 411</u> |

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

City of Highland Heights, Ohio

Statement of Changes in Fiduciary Net Position Custodial Fund For the Year Ended December 31, 2022

| | <u>Custodial Fund</u> |
|---|-----------------------|
| ADDITIONS | |
| Licenses, Permits, & Fees Distributions for Other Governments | \$ 3,719 |
| Total Additions | <u>3,719</u> |
| DEDUCTIONS | |
| Licenses, Permits, & Fees Distributions to Other Governments | <u>3,446</u> |
| Total Deductions | <u>3,446</u> |
| Net Increase in Fiduciary Net Position | 273 |
| Net Position - Beginning of Year | <u>138</u> |
| Net Position - End of Year | <u><u>\$ 411</u></u> |

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 1: **REPORTING ENTITY**

The City of Highland Heights, Ohio (the City) was incorporated as a Village in 1920 after it separated from Mayfield Township. In October 1966, the electors of Highland Heights approved a charter that established home rule under a Council-Mayor form of government. In 1969, Highland Heights became a City upon attaining a population of 5,000.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of the City and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization; **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete; or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The Mayfield City School District is located partially within the City's boundaries, but is excluded from the City's financial statements based on the above criteria. The City has no component units.

The City is associated with four organizations which are defined as jointly governed organizations. The jointly governed organizations are Community Partnership on Aging Council of Governments, the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 17 to the basic financial statements. The City is also associated with Northern Ohio Risk Management Association which is defined as a risk sharing pool as presented in Note 14. The City is associated with Ohio Government Benefit Cooperative (OGBC) which is defined as an insurance purchasing pool as presented in Note 18.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

The more significant of the City's accounting policies are described below.

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.

The statement of net position presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the City.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds

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

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City and/or the general laws of Ohio.

American Rescue Plan Fund – The American Rescue Plan Fund accounts for the grant proceeds to local governments who have been financially impacted by the COVID-19 Pandemic.

Capital Improvement Fund – The Capital Improvement Fund accounts for different resources that are used to construct, equip and furnish the capital assets used by the various departments of the City, as well as for various infrastructure projects.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and custodial funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's fiduciary funds are custodial funds. The City has one custodial fund used to account for the OBBC 1% and 3% collection fees.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

C. **Measurement Focus**

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources along with current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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; fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflow/inflows, and the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations are recognized in the fiscal 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

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. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The City reported unearned revenue related to contractor bonds and deposits and unspent proceeds of ARPA money.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding, pension and OPEB reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Note 11 and Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, leases, and OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2022, but which were levied to finance year 2023 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position (see Note 11 and Note 12).

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

E. Equity in Pooled Cash and Investments

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

During 2022, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposits, U.S. Treasury Securities, a U.S. Government Bond, and Municipal Bonds. The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2022, 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 \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2022 amounted to (\$453,710), which includes (\$311,396) assigned from other funds.

F. Materials and Supplies Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory consists of expendable supplies held for consumption.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2022, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

H. **Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$7,500. The City's infrastructure consists of roads, water mains, sanitary sewers, storm sewers, culverts, bridges, and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. 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>Governmental Activities Estimated Lives</u> |
|--------------------------|--|
| Building and Improvement | 20 - 40 years |
| Machinery and Equipment | 5 - 20 years |
| Furniture and Fixtures | 15 years |
| Vehicles | 4 - 8 years |
| Infrastructure | 50 years |

I. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund receivables/payables". These amounts are eliminated in the governmental activities' column of the statement of net position.

J. **Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

J. **Compensated Absences** (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds which the employees who have accumulated the leave are paid.

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 and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability/asset should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

L. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

L. **Fund Balance** (Continued)

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

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

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

M. **Net Position**

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

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net investments 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. Net Position is reported as restricted 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 governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2022.

P. **Estimates**

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

Q. **Budgetary Data**

An annual budget is prepared for all funds of the City. The City's budgetary process, which is governed by State law, is described below:

Tax Budget - The City must submit a budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following calendar year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1 and issues a "Certificate of Estimated Resources" limiting the maximum amount the City may appropriate from a given fund during the year.

On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must prepare its appropriations so that the total appropriations from each fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources.

Appropriations - A temporary appropriation ordinance may be passed to control expenditures for the period January 1 through March 31. Before April 1, an annual appropriation ordinance must be passed for the period January 1 to December 31. The appropriation ordinance, which controls expenditures at the major object level, may be amended or supplemented by Council during the year as required. The major object level is further defined by grouping level. The administration may move budgeted amounts within each object grouping level. During 2022, there were few amendments to the appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

Q. Budgetary Data (Continued)

Budgeted Level of Expenditure - Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges.

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as restricted, committed, and assigned fund balances for subsequent year expenditures in the governmental funds.

Lapsing of Appropriations - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

R. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES**

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

GASB Implementation Guide 2020-1 provides clarification on issues related to previously established GASB guidance. The implementation of GASB Implementation Guide 2020-1 did not have an effect on the financial statements of the City.

GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The implementation of this Statement did not have an effect on the financial statements of the City.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implication that result from the replacement of an IBOR. The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 87, *Leases* and GASB Implementation Guide 2019-3, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. These changes were incorporated in the City's fiscal year 2022 financial statements. The City recognized \$274,237 in governmental activities in leases receivable at January 1, 2021; however, this entire amount was offset by a deferred inflow.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis);
- c. Advances in and advances out are operating transactions (budget basis) as opposed to when the liability is incurred (GAAP basis);
- d. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, and assigned fund balance (GAAP basis);
- e. Some funds are included in the General Fund (GAAP Basis), but have separate legally adopted budgets (budget basis).

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

| Net Change in Fund Balance | | |
|---|---------------------|----------------------------|
| | General Fund | American Rescue Plan |
| GAAP Basis | \$ (814,462) | \$ - |
| Increase (Decrease) Due to: | | |
| Revenue Accruals | 307,973 | 992,042 |
| Expenditure Accruals | 27,728 | (645,292) |
| Advances In | 49,431 | - |
| Advances out | (23,000) | - |
| Adjustment for Encumbrances | (247,463) | - |
| Funds with Separate Legally Adopted Budgets | (2,439) | - |
| Budgetary Basis | <u>\$ (702,232)</u> | <u>\$ 346,750</u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 5: 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 public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. **Cash on Hand**

At December 31, 2022, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

B. **Deposits**

At December 31, 2022, the carrying amount of all City deposits was \$11,333,289. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2022, \$550,000 of the City's bank balance of \$11,564,961 was covered by Federal Depository Insurance and \$7,389,382 was uninsured and collateralized with securities held by the pledging financial institution's trust department agent, but not in the City's name, and \$3,625,579 was uninsured and uncollateralized. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

B. **Deposits** (Continued)

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

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

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

C. **Investments**

The City has a formal investment policy and utilizes a pooled investment concept for all its funds to maximize its investment program. 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. 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 table on the next page identifies the City's recurring measurement values and level inputs as of December 31, 2022. As previously discussed, Star Ohio is reported at its net asset value. The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs). As of December 31, 2022, fair value was \$446,357 below the City's net cost for investments.

D. **Interest Rate Risk**

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

E. **Credit Risk**

The credit risks of the City's investments are in the table below. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

F. **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City's investment in negotiable certificates of deposit were fully insured by Federal depository insurance.

G. **Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer. The City's investment in negotiable certificates of deposit represents 24.9 percent of the City's total investments. The remaining investments of the City, STAR Ohio, municipal bond, U.S. Government bond, and U.S. Treasury represent 5.40 percent, 19.00 percent, 4.40 percent, and 46.30 percent respectively, of the City's total investments.

Cash and investments at year-end were as follows:

| Cash and Investment Type | Measurement Value | Credit Rating (*) | Level Input | Investment Maturity (in years) | | |
|-----------------------------------|----------------------|----------------------|----------------|--------------------------------|---------------------|---------------------|
| | | | | <1 | 1-2 | 3-5 |
| STAR Ohio | \$ 508,935 | AAAm | N/A | \$ 508,935 | \$ - | \$ - |
| Negotiable CD's | 2,356,132 | N/A | 2 | 977,525 | 472,857 | 905,750 |
| Municipal Bond | 1,795,851 | A+/AA/A- | 2 | 1,503,921 | 291,930 | - |
| U.S. Government Bond | 416,807 | AA+ | 2 | - | - | 416,807 |
| U.S. Treasury / Agency Securities | 4,375,630 | N/A | 2 | 1,823,841 | 742,798 | 1,808,991 |
| Total Investments | 9,453,355 | | | <u>\$ 4,814,222</u> | <u>\$ 1,507,585</u> | <u>\$ 3,131,548</u> |
| Carrying Amount of Deposits | 11,333,289 | | | | | |
| Petty Cash | 700 | | | | | |
| Total Cash and Investments | <u>\$ 20,787,344</u> | | | | | |

* Credit rating was obtained from Standard & Poor's for all investments.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 6: RECEIVABLES

Receivables at December 31, 2022, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, leases, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2022 for real and public property taxes represents collections of 2021 taxes. Property tax payments received during 2022 for tangible personal property (other than public utility property) are for 2022 taxes.

2022 real property taxes are levied after October 1, 2022, on the assessed value as of January 1, 2022, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2022 real property taxes are collected in and intended to finance 2023.

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. 2022 public utility property taxes which became a lien at December 31, 2022, are levied after October 1, 2022, and are collected in 2023 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2022, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2022 property tax receipts were based are as follows:

| | |
|----------------------------------|----------------------|
| Real Property | \$454,197,660 |
| Public Utility Tangible Property | <u>5,288,860</u> |
| Total | <u>\$459,486,520</u> |

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

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County's Fiscal Officer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County's Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2022, and for which there is an enforceable legal claim. In the General, General Obligation Bond Retirement, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2022 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

Effective January 1, 2007, an income tax of 2.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 100 percent of the City's current tax rate. The allocation of income tax revenue to the City's various funds is determined by City Ordinance.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed and collected by the County's Fiscal Officer. The County's Fiscal Officer periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

At December 31, 2022, special assessments expected to be collected in more than one year amount to \$837,410 including delinquent special assessments of \$424,976.

D. **Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and is reported in the Capital Improvement Fund and General Obligation Bond Retirement nonmajor debt service fund.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

| <u>Governmental Funds</u> | |
|--|--------------------------|
| Gasoline Tax | \$ 244,966 |
| Local Government | 72,635 |
| Homestead and Rollback Reimbursement | 102,409 |
| Auto Registration | 33,326 |
| Permissive Tax | 5,554 |
| Total Intergovernmental Receivables | <u>\$ 458,890</u> |

F. **Lease Receivable**

On January 1, 2022, City of Highland Heights entered into a lease as Lessor for the use of a cell phone tower. An initial lease receivable was recorded in the amount of \$274,237. As of December 31, 2022, the value of the lease receivable is \$262,601. The lessee is required to make monthly fixed payments of \$1,785. The lease has an interest rate of 4.00%. The value of the deferred inflow of resources as of December 31, 2022 was \$256,917, and the City recognized lease revenue of \$17,320 during the fiscal year.

The following table is a schedule of future payments to be received by the City.

| <u>Fiscal Year</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | <u>Payments</u> |
|---------------------------|----------------------------------|---------------------------------|------------------------|
| 2023 | 11,435 | 10,297 | 21,732 |
| 2024 | 12,178 | 9,826 | 22,004 |
| 2025 | 12,954 | 9,324 | 22,279 |
| 2026 | 13,766 | 8,792 | 22,557 |
| 2027 | 14,614 | 8,225 | 22,839 |
| 2028 - 2032 | 87,181 | 31,369 | 118,550 |
| 2033 - 2037 | 110,473 | 11,321 | 121,794 |
| Total | <u>262,601</u> | <u>89,154</u> | <u>351,755</u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 7: FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | American Rescue Plan | Capital Improvement | Other Governmental Funds | Total |
|-----------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------|-----------------------------|
| <i>Nonspendable</i> | | | | | |
| Prepaid Items | \$ 274,064 | \$ - | \$ - | \$ 22,962 | \$ 297,026 |
| Inventories | 14,734 | - | - | 115,632 | 130,366 |
| Unclaimed Funds | 15,576 | - | - | - | 15,576 |
| <i>Total Nonspendable</i> | <u>304,374</u> | <u>-</u> | <u>-</u> | <u>138,594</u> | <u>442,968</u> |
| <i>Restricted for</i> | | | | | |
| Police Pension | - | - | - | 157,880 | 157,880 |
| Fire Pension | - | - | - | 96,125 | 96,125 |
| Parks and Recreation | - | - | - | 1,105,434 | 1,105,434 |
| Other Law Enforcement | - | - | - | 110,851 | 110,851 |
| Streets and Highways | - | - | - | 1,299,004 | 1,299,004 |
| Street Lighting | - | - | - | 532,223 | 532,223 |
| FEMA Fire Assistance | - | - | - | 11,768 | 11,768 |
| Other Grants | - | - | - | 1 | 1 |
| Debt Service | - | - | - | 1,615,313 | 1,615,313 |
| Capital Improvements | - | - | 6,989,831 | - | 6,989,831 |
| <i>Total Restricted</i> | <u>-</u> | <u>-</u> | <u>6,989,831</u> | <u>4,928,599</u> | <u>11,918,430</u> |
| <i>Committed to</i> | | | | | |
| Parks and Recreation Improvements | - | - | - | 12,351 | 12,351 |
| Street Trees | - | - | - | 12,014 | 12,014 |
| White Road Development | - | - | - | 45,955 | 45,955 |
| <i>Total Committed</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>70,320</u> | <u>70,320</u> |
| <i>Assigned to</i> | | | | | |
| Purchases on Order | | | | | |
| Basic Utility | 24,663 | - | - | - | 24,663 |
| Community Environment | 2,932 | - | - | - | 2,932 |
| General Government | 98,518 | - | - | - | 98,518 |
| Public Health | 12,933 | - | - | - | 12,933 |
| Security of Persons and Property | 51,251 | - | - | - | 51,251 |
| Fiscal Year 2023 Appropriations | 1,127,124 | - | - | - | 1,127,124 |
| <i>Total Assigned</i> | <u>1,317,421</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,317,421</u> |
| <i>Unassigned</i> | 7,939,060 | - | - | (15,423) | 7,923,637 |
| Total Fund Balances | <u><u>\$ 9,560,855</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 6,989,831</u></u> | <u><u>\$ 5,122,090</u></u> | <u><u>\$ 21,672,776</u></u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 8: INTERFUND TRANSFERS AND BALANCES

A. Interfund Transfers

Transfers made during the year end December 31, 2022 were as follow:

| Transfers Out | Transfers In | | |
|-----------------------------|------------------------|-----------------------------------|-------------------|
| | Capital Improvement | Nonmajor Governmental Funds | Total |
| General | \$ - | \$ 800,000 | \$ 800,000 |
| Nonmajor Governmental Funds | 2,145 | - | 2,145 |
| Total | <u>\$ 2,145</u> | <u>\$ 800,000</u> | <u>\$ 802,145</u> |

The General Fund transferred \$365,000 to the Police Pension Fund and \$435,000 to the Fire Pension Fund for pension obligation payments. In addition, the Grants Fund transferred \$2,145 to the Capital Improvement Fund.

B. Interfund Balances

Interfund loans consisted of the following amounts “interfund receivable/payable” at December 31, 2022, as reported on the fund financial statements.

| | Receivable | Payable |
|-----------------------------|------------------|------------------|
| Governmental Activities: | | |
| General | \$ 23,000 | \$ - |
| Nonmajor Governmental Funds | - | 23,000 |
| Total | <u>\$ 23,000</u> | <u>\$ 23,000</u> |

The primary purpose of the interfund balances is to cover costs in specific funds where anticipated revenues were not received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balance are expected to be repaid within one year. Interfund balances at December 31, 2022 consisted of \$23,000 due to the General Fund from the NOPEC POC Grant. Interfund balances between governmental funds are eliminated on the governmental-wide financial statements; therefore, no internal balances at December 31, 2022 are reported on the statement of net position.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2022 follows:

| | Balance 12/31/2021 | Additions | Disposals | Balance 12/31/2022 |
|--|-----------------------|---------------------|-----------------------|-----------------------|
| <u>Governmental Activities</u> | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$ 1,679,660 | \$ - | \$ - | \$ 1,679,660 |
| Construction in Progress | 871,005 | 1,283,486 | (1,102,252) | 1,052,239 |
| Total Capital Assets Not Being Depreciated | <u>2,550,665</u> | <u>1,283,486</u> | <u>(1,102,252)</u> | <u>2,731,899</u> |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Land Improvements | 2,330,937 | 115,850 | - | 2,446,787 |
| Buildings | 7,594,095 | 344,995 | - | 7,939,090 |
| Machinery and Equipments | 3,379,196 | 101,671 | (124,251) | 3,356,616 |
| Furniture and Fixtures | 88,968 | - | - | 88,968 |
| Vehicles | 3,912,236 | 465,029 | (176,023) | 4,201,242 |
| Infrastructures | | | | |
| Roads | 29,492,392 | 1,922,194 | - | 31,414,586 |
| Water Mains | 14,446,875 | - | - | 14,446,875 |
| Sanitary Sewers | 13,862,512 | - | - | 13,862,512 |
| Storm Sewers | 17,676,637 | - | - | 17,676,637 |
| Culverts | 219,885 | - | - | 219,885 |
| Bridges | 216,549 | - | - | 216,549 |
| Traffic Signals | 84,068 | 11,446 | (4,110) | 91,404 |
| Totals at Historical Cost | <u>93,304,350</u> | <u>2,961,185</u> | <u>(304,384)</u> | <u>95,961,151</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (1,961,018) | (126,060) | - | (2,087,078) |
| Buildings | (6,097,295) | (251,884) | - | (6,349,179) |
| Machinery and Equipments | (1,876,634) | (159,084) | 100,340 | (1,935,378) |
| Furniture and Fixtures | (44,101) | (5,999) | - | (50,100) |
| Vehicles | (2,688,433) | (326,708) | 166,809 | (2,848,332) |
| Infrastructures | | | | |
| Roads | (14,864,353) | (537,026) | - | (15,401,379) |
| Water Mains | (7,587,238) | (247,837) | - | (7,835,075) |
| Sanitary Sewers | (7,876,293) | (252,793) | - | (8,129,086) |
| Storm Sewers | (10,498,128) | (319,679) | - | (10,817,807) |
| Culverts | (139,943) | (3,868) | - | (143,811) |
| Bridges | (90,951) | (4,330) | - | (95,281) |
| Traffic Signals | (66,764) | (3,693) | 4,110 | (66,347) |
| Total Accumulated Depreciation | <u>(53,791,151)</u> | <u>(2,238,961)</u> | <u>271,259</u> | <u>(55,758,853)</u> |
| Total Capital Assets, being Depreciated, Net | <u>39,513,199</u> | <u>722,224</u> | <u>(33,125)</u> | <u>40,202,298</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 42,063,864</u> | <u>\$ 2,005,710</u> | <u>\$ (1,135,377)</u> | <u>\$ 42,934,197</u> |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 9: **CAPITAL ASSETS** (Continued)

*Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|----------------------------|
| General Government | \$ 122,188 |
| Security of Persons and Property | 431,787 |
| Basic Utilities | 824,177 |
| Community Environment | 3,194 |
| Leisure Time Activities | 181,236 |
| Transportation | 676,379 |
| Total Depreciation Expense | <u>\$ 2,238,961</u> |

NOTE 10: **COMPENSATED ABSENCES**

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be converted by each employee, with the exception of firemen, who can convert 1,345 hours.

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy does not permit vacation leave to be carried forward unless authorized by the Mayor or department head. City employees are paid for earned unused vacation leave at the time of termination of employment.

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

A. **Net Pension Liability**

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

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

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

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent. Cost-of-living adjustments for OPERS members in 2022 will be 3 percent for all those eligible to receive the annual benefit increase.

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 Tradition pension plan and the Combined Plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

Beginning in 2022, the combined plan will be consolidated under the traditional pension plan (defined benefit plan) and the combined plan will no longer be available for new hires beginning in 2022.

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

| | <u>State and Local</u> |
|--|----------------------------|
| 2022 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee * | 10.0 % |
| 2022 Actual Contribution Rates | |
| Employer: | |
| Pension ** | 14.0 % |
| Post-Employment Health Care Benefits ** | <u>0.0</u> |
| Total Employer | <u>14.0 %</u> |
| Employee | <u>10.0 %</u> |

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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 2022 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2022. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$441,050 for fiscal year ending December 31, 2022.

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

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

The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the members' base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

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

| | Police | Firefighters |
|--|---------|--------------|
| 2022 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |
| 2022 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 | 0.50 |
| Total Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$904,033 for 2022.

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

The net pension liability for OPERS was measured as of December 31, 2021, and the total pension liability/asset 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, 2021, and was determined by rolling forward the total pension liability as of January 1, 2021, to December 31, 2021. 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. The following page is information related to the proportionate share and pension expense:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

| | OPERS Traditional Pension Plan | OP&F Police | OP&F Fire | Total |
|---|--------------------------------------|----------------|--------------|---------------|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.019147% | 0.0844600% | 0.0904014% | |
| Proportion of the Net Pension Liability Current Measurement Date | 0.020161% | 0.0838177% | 0.0907341% | |
| Change in Proportionate Share | 0.001014% | -0.0006423% | 0.0003327% | |
| Proportionate Share of the Net Pension Liability | \$ 1,754,089 | \$ 5,236,446 | \$ 5,668,544 | \$ 12,659,079 |
| Pension Expense | \$ (278,871) | \$ 350,553 | \$ 443,688 | \$ 515,370 |

At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS Traditional Pension Plan | OP&F Police | OP&F Fire | Total |
|---|--------------------------------------|---------------------|---------------------|---------------------|
| Deferred Outflows of Resources | | | | |
| Differences between expected and actual experience | \$ 89,421 | \$ 150,989 | \$ 163,448 | \$ 403,858 |
| Changes of assumptions | 219,347 | 956,998 | 1,035,968 | 2,212,313 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 124,995 | 95,875 | 290,366 | 511,236 |
| City contributions subsequent to the measurement date | 441,050 | 422,729 | 481,304 | 1,345,083 |
| Total Deferred Outflows of Resources | <u>\$ 874,813</u> | <u>\$ 1,626,591</u> | <u>\$ 1,971,086</u> | <u>\$ 4,472,490</u> |
| Deferred Inflows of Resources | | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 2,086,424 | \$ 1,372,915 | \$ 1,486,205 | \$ 4,945,544 |
| Differences between expected and actual experience | 38,471 | 272,224 | 294,687 | 605,382 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 17,486 | 100,418 | 3,672 | 121,576 |
| Total Deferred Inflows of Resources | <u>\$ 2,142,381</u> | <u>\$ 1,745,557</u> | <u>\$ 1,784,564</u> | <u>\$ 5,672,502</u> |

\$1,345,083 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense on the following page:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

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

| Year Ending December 31: | OPERS | | | |
|--------------------------|-----------------------------|---------------------|---------------------|-----------------------|
| | Traditional Pension Plan | OP&F Police | OP&F Fire | Total |
| 2023 | \$ (204,296) | \$ 21,382 | \$ 90,394 | \$ (92,520) |
| 2024 | (681,818) | (370,655) | (324,009) | (1,376,482) |
| 2025 | (490,603) | (169,061) | (97,073) | (756,737) |
| 2026 | (331,901) | (126,472) | (84,130) | (542,503) |
| 2027 | - | 103,111 | 120,036 | 223,147 |
| Total | <u>\$ (1,708,618)</u> | <u>\$ (541,695)</u> | <u>\$ (294,782)</u> | <u>\$ (2,545,095)</u> |

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2021, the Board's actuarial consultants conducted an experience study for the period 2016 through 2020, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 7.2% down to 6.9%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

| | <u>Traditional Pension Plan</u> | <u>Combined Plan</u> |
|---|--|--|
| Wage Inflation | | |
| Current Measurement Date: | 2.75 percent | 2.75 percent |
| Prior Measurement Date: | 3.25 percent | 3.25 percent |
| Future Salary Increases, including inflation | | |
| Current Measurement Date: | 2.75 to 10.75 percent including wage inflation | 2.75 to 8.25 percent including wage inflation |
| Prior Measurement Date: | 3.25 to 10.75 percent including wage inflation | 3.25 to 8.25 percent including wage inflation |
| COLA or Ad Hoc COLA | | |
| Pre 1/7/2013 retirees: | 3 percent, simple | 3 percent, simple |
| Post 1/7/2013 retirees: | | |
| Current Measurement Date: | 3 percent, simple through 2022, then 2.05 percent simple | 3 percent, simple through 2022, then 2.05 percent simple |
| Prior Measurement Date: | 0.50 percent, simple through 2021, then 2.15 percent simple | 0.50 percent, simple through 2021, then 2.15 percent simple |
| Investment Rate of Return | | |
| Current Measurement Date: | 6.9 percent | 6.9 percent |
| Prior Measurement Date: | 7.2 percent | 7.2 percent |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The long-term expected 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

OPERS manages investments in three investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a gain of 15.3 percent for 2021.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2021 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Geometric) |
|------------------------|----------------------|--|
| Fixed Income | 24.00 % | 1.03 % |
| Domestic Equities | 21.00 | 3.78 |
| Real Estate | 11.00 | 3.66 |
| Private Equity | 12.00 | 7.43 |
| International Equities | 23.00 | 4.88 |
| Risk Parity | 5.00 | 2.92 |
| Other investments | 4.00 | 2.85 |
| Total | 100.00 % | 4.21 % |

Discount Rate The discount rate used to measure the total pension liability was 6.9 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: 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 6.9 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

| City's proportionate share of the net pension liability | 1% Decrease (5.90%) | Discount Rate (6.90%) | 1% Increase (7.90%) |
|--|------------------------|--------------------------|------------------------|
| Traditional Pension Plan | \$ 4,624,732 | \$ 1,754,089 | \$ 634,668 |

F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2021 is based on the results of an actuarial valuation date of January 1, 2021, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2021, are presented below:

| | |
|----------------------------|--|
| Valuation Date | January 1, 2021, with actuarial liabilities rolled forward to December 31, 2021 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 7.50 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | 3.25 percent per annum, compounded annually, consisting of inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Cost of Living Adjustments | 2.2 percent simple |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **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 Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck 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 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 the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2021 are summarized on the following page:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return ** |
|---------------------------------|----------------------|--|
| Domestic Equity | 21.00 % | 3.60 % |
| International Equity | 14.00 | 4.40 |
| Core Fixed Income * | 23.00 | 1.10 |
| U.S. Inflation Linked Bonds * | 17.00 | 0.80 |
| High Yield Fixed Income | 7.00 | 3.00 |
| Private Real Estate | 12.00 | 4.80 |
| Private Markets | 8.00 | 6.80 |
| Midstream Energy Infrastructure | 5.00 | 5.00 |
| Private Credit | 5.00 | 4.50 |
| Real Assets | 8.00 | 5.90 |
| Gold | 5.00 | 2.40 |
| Total | 125.00 % | |

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.25 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 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 16,171,948 | \$ 10,904,990 | \$ 6,518,914 |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 12: **DEFINED BENEFIT OPEB PLANS**

A. Net OPEB Liability/Asset

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

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

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

GASB 75 assumes that any liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2021, measurement date health care valuation.

In order to qualify for postemployment health care coverage, generally age and service retirees under the traditional pension and combined plans must be at least age sixty with twenty or more years of qualifying Ohio service credit, or thirty years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Annual Comprehensive Financial Report 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. Beginning in 2018, health care was no longer being funded.

Employer contribution rates are expressed as a percentage of covered payroll. In 2022, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

B. 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. For 2022, OPERS did not allocate employer contributions to health care for members in the Traditional Pension Plan and Combined Plan. 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 2022 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$6,543 for 2022.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) a cost-sharing, multiple-employer defined post-employment healthcare plan that provides various levels of health care to retired, disabled and beneficiaries, as well as their dependents. On January 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses. A summary of the full benefit provisions can be found in OP&F's annual comprehensive financial report.

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2022, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The City's contractually required contribution to OP&F was \$21,365 for 2022.

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

The net OPEB asset and total OPEB asset for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2021, 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, 2021, and was determined by rolling forward the total OPEB liability as of January 1, 2021, to December 31, 2021. The City's proportion of the net OPEB liability/asset 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:

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 12: DEFINED BENEFIT OPEB PLANS (Continued)

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

| | OPERS | OP&F | Total |
|--|----------------|--------------|--------------|
| Proportion of the Net OPEB Liability/Asset Prior Measurement Date | 0.018913% | 0.1748614% | |
| Proportion of the Net OPEB Liability/Asset Current Measurement Date | 0.019692% | 0.1745519% | |
| Change in Proportionate Share | 0.000779% | -0.0003096% | |
| Proportionate Share of the Net OPEB Liability/(Asset) | \$ (616,784) | \$ 1,913,238 | \$ 1,296,454 |
| OPEB Expense | \$ (1,116,884) | \$ 206,542 | \$ (910,342) |

At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | OPERS | OP&F | Total |
|---|------------|--------------|--------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ - | \$ 87,035 | \$ 87,035 |
| Changes of assumptions | - | 846,856 | 846,856 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 13,559 | 165,151 | 178,710 |
| City contributions subsequent to the measurement date | 6,543 | 21,365 | 27,908 |
| Total Deferred Outflows of Resources | \$ 20,102 | \$ 1,120,407 | \$ 1,140,509 |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 93,555 | \$ 252,862 | \$ 346,417 |
| Changes of assumptions | 249,666 | 222,212 | 471,878 |
| Net difference between projected and actual earnings on OPEB plan investments | 294,039 | 172,829 | 466,868 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 6,192 | 705 | 6,897 |
| Total Deferred Inflows of Resources | \$ 643,452 | \$ 648,608 | \$ 1,292,060 |

\$27,908 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 and increase of the net OPEB asset in 2023.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

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

| Year Ending December 31: | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--------------------------|---------------------|-------------------|------------------|
| 2023 | \$ (391,410) | \$ 128,828 | \$ (262,582) |
| 2024 | (132,008) | 103,168 | (28,840) |
| 2025 | (64,248) | 107,800 | 43,552 |
| 2026 | (42,227) | 23,006 | (19,221) |
| 2027 | - | 45,031 | 45,031 |
| Thereafter | - | 42,601 | 42,601 |
| Total | <u>\$ (629,893)</u> | <u>\$ 450,434</u> | <u>(179,459)</u> |

E. Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan 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, 2020, rolled forward to the measurement date of December 31, 2021.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| | |
|---|---|
| Wage Inflation | |
| Current Measurement Date: | 2.75 percent |
| Prior Measurement Date: | 3.25 percent |
| Projected Salary Increases, including inflation | |
| Current Measurement Date: | 2.75 to 10.75 percent, including wage inflation |
| Prior Measurement Date: | 3.25 to 10.75 percent, including wage inflation |
| Single Discount Rate: | 6.00 percent |
| Investment Rate of Return | 6.00 percent |
| Municipal Bond Rate | |
| Current Measurement Date: | 1.84 percent |
| Prior Measurement Date: | 2.00 percent |
| Health Care Cost Trend Rate | |
| Current Measurement Date: | 5.50 percent initial, 3.50 percent ultimate in 2034 |
| Prior Measurement Date: | 8.50 percent initial, 3.50 percent ultimate in 2035 |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

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 Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

During 2021, 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 was a gain of 14.30 percent for 2021.

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 2021 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Geometric) |
|------------------------------|----------------------|--|
| Fixed Income | 34.00 % | 0.91 % |
| Domestic Equities | 25.00 | 3.78 |
| Real Estate Investment Trust | 7.00 | 3.71 |
| International Equities | 25.00 | 4.88 |
| Risk Parity | 2.00 | 2.92 |
| Other investments | 7.00 | 1.93 |
| Total | 100.00 % | 3.45 % |

Discount Rate A single discount rate of 6.00 percent was used to measure the OPEB asset on the measurement date of December 31, 2021. A single discount rate of 6.00 percent was used to measure the OPEB asset on the measurement date of December 31, 2020. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 1.84 percent.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

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 2121. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2121, the duration of the projection period through which projected health care payments are fully funded.

Sensitivity of the City's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate

The following table presents the City's proportionate share of the net OPEB asset calculated using the single discount rate of 6.00 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

| | 1% Decrease (5.00%) | Current Discount Rate (6.00%) | 1% Increase (7.00%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB asset | \$ 362,727 | \$ 616,784 | \$ 827,655 |

Sensitivity of the City's Proportionate Share of the Net OPEB Asset 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 asset calculated using the assumed trend rates, and the expected net OPEB asset if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

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 2022 is 5.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

| | 1% Decrease | Current Health Care Cost Trend Rate Assumption | 1% Increase |
|---|-------------|--|-------------|
| City's proportionate share of the net OPEB asset | \$ 623,449 | \$ 616,784 | \$ 608,877 |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

F. **ACTUARIAL ASSUMPTIONS – OP&F**

OP&F's total OPEB liability as of December 31, 2021, is based on the results of an actuarial valuation date of January 1, 2021, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

| | |
|----------------------------|--|
| Valuation Date | January 1, 2021, with actuarial liabilities rolled forward to December 31, 2021 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 7.5 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Single discount rate: | |
| Current measurement date | 2.84 percent |
| Prior measurement date | 2.96 percent |
| Cost of Living Adjustments | 2.2 percent simple |

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 Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

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

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

| 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 Buck Modified 2016 Improvement Scale.

| Age | Police | Fire |
|------------|--------|------|
| 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 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, 2021, are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return ** |
|---------------------------------|-------------------|---|
| Cash and Cash Equivalents | 0.00 % | 0.00 % |
| Domestic Equity | 21.00 | 3.60 |
| Non-US Equity | 14.00 | 4.40 |
| Core Fixed Income * | 23.00 | 1.10 |
| U.S. Inflation Linked Bonds * | 17.00 | 0.80 |
| High Yield Fixed Income | 7.00 | 3.00 |
| Private Real Estate | 12.00 | 4.80 |
| Private Markets | 8.00 | 6.80 |
| Midstream Energy Infrastructure | 5.00 | 5.00 |
| Private Credit | 5.00 | 4.50 |
| Real Assets | 8.00 | 5.90 |
| Gold | 5.00 | 2.40 |
| Total | 125.00 % | |

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 12: **DEFINED BENEFIT OPEB 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 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 in core fixed income and U.S. inflation linked bonds and the implementation approach for gold.

Discount Rate The total OPEB liability was calculated using the discount rate of 2.84 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 7.50 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.05 percent at December 31, 2021 and 2.12 percent at December 31, 2020, was blended with the long-term rate of 7.50 percent, which resulted in a blended discount rate of 2.84 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2037. The long-term expected rate of return on health care investments was applied to projected costs through 2037, 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 2.84 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.84 percent), or one percentage point higher (3.84 percent) than the current rate.

| | 1% Decrease (1.84%) | Current Discount Rate (2.84%) | 1% Increase (3.84%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$ 2,404,983 | \$ 1,913,238 | \$ 1,509,023 |

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2022, are as follow:

| | Principal Outstanding 12/31/2021 | Additions | Deletions | Principal Outstanding 12/31/2022 | Amounts Due in One Year |
|--|--|---------------------|-----------------------|--|-------------------------------|
| <u>Governmental Activities</u> | | | | | |
| <u>General Obligation Bonds</u> | | | | | |
| 2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0% | 585,000 | - | (105,000) | 480,000 | 110,000 |
| 2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125% | 230,000 | - | (75,000) | 155,000 | 75,000 |
| 2021 \$7,910,000 Various Purpose 1.0-5.0% | 7,910,000 | - | (60,000) | 7,850,000 | 520,000 |
| 2022 \$5,000,000 Various Purpose 2.0-3.0% | - | 5,000,000 | - | 5,000,000 | 195,000 |
| Total General Obligation Bonds | 8,725,000 | 5,000,000 | (240,000) | 13,485,000 | 900,000 |
| <u>Direct Borrowings</u> | | | | | |
| <u>Ohio Public Works Commission</u> | | | | | |
| 1999 \$686,733 Sanitary Sewer Selected Locations, 0% | 17,166 | - | (17,166) | - | - |
| 2008 \$629,941 Highland-Bishop Intersection Improvement, 0% | 299,220 | - | (31,496) | 267,724 | 31,496 |
| 2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0% | 470,453 | - | (34,340) | 436,113 | 34,340 |
| 2015 \$1,703,770 Highland Road Water Main Replacement, 0% | 1,561,790 | - | (56,792) | 1,504,998 | 56,792 |
| Total Ohio Public Works Commission | 2,348,629 | - | (139,794) | 2,208,835 | 122,628 |
| <u>Other Long-term Liabilities</u> | | | | | |
| Unamortized Bond Premium | \$ 525,406 | \$ 169,443 | \$ (61,020) | \$ 633,829 | \$ - |
| Net Pension Liability | | | | | |
| OPERS | 2,835,254 | - | (1,081,165) | 1,754,089 | - |
| OP&F | 11,920,459 | - | (1,015,469) | 10,904,990 | - |
| Total Net Pension Liability | 14,755,713 | - | (2,096,634) | 12,659,079 | - |
| Net OPEB Liability | | | | | |
| OP&F | 1,852,685 | 60,553 | - | 1,913,238 | - |
| Total OPEB Liability | 1,852,685 | 60,553 | - | 1,913,238 | - |
| Compensated Absences | 1,702,016 | 783,860 | (669,058) | 1,816,818 | 530,839 |
| Total Other Long-term Liabilities | 18,835,820 | 1,013,856 | (2,826,712) | 17,022,964 | 530,839 |
| Total Governmental Long-Term Liabilities | \$ 29,909,449 | \$ 6,013,856 | \$ (3,206,506) | \$ 32,716,799 | \$ 1,553,467 |

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

The 2007 bonds were issued for the construction of Aberdeen Business Park.

In 2021, the City issued \$7,910,000 for Various Purpose Improvements. The interest rate ranges from 1.0%-5.0% and will mature in 2036. These bonds will be repaid from the General Bond Retirement Fund.

In 2022, the City issued \$5,000,000 for Various Purpose Improvements. The interest rate ranges from 2.0%-3.0% and will mature in 2041. These bonds will be repaid from the General Bond Retirement Fund.

Defeased Debt

On October 5, 2011, the City issued \$5,145,000 in bonds for the purpose of refunding all of the City's outstanding various purpose improvements bonds, series 1997 and series 2001. The refunding bonds were issued to refund at a lower overall interest cost all of the outstanding 2011 bonds maturing after December 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 1997 and 2001 bonds was \$6,506,803 versus \$5,851,963 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$654,840. The present value of the difference between the two debt streams using the arbitrage yield was \$596,290 which constitutes the economic gain on the transaction. The 2011 refunding balance was \$155,000 as of December 31, 2022.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond Retirement Fund, except for the 2007 Aberdeen Business Park Improvement Bond. This bond is paid out of the Special Assessment Bond Retirement Fund since it is payable from proceeds of assessments.

In 2015, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$1,703,770. These funds are being used for Highland Road Water Main Replacement project which was started in 2016. The debt is a zero percent interest loan over thirty years. As of December 31, 2022, the loan balance for the portion of the project completed was \$1,504,998.

The City's direct borrowing from OPWC in the amount of \$2,348,629 contain a provision that in the event of default the amount of such default shall bear interest thereafter at the rate of 8 percent per annum until the date of payment, and outstanding amounts become immediately due. Also, OPWC may direct the county treasurer to pay the outstanding amount from portion of the local government fund that would otherwise be appropriated to the City.

The OPWC loans will be paid by revenues transferred from the General Fund and from special assessment proceeds. Compensated absences will be paid from the General Fund, the Street Construction, Maintenance, and Repair Fund, and the Parks and Recreation Fund.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2022, the City's overall debt margin was \$35,751,875 with an unvoted debt margin of \$13,041,992.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2022, from the general resources of the City are as follows:

| Year | General Obligation Bonds | | OPWC Loans | Total | |
|-----------|--------------------------|---------------------|---------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Principal | Interest |
| 2023 | \$ 900,000 | \$ 332,331 | \$ 122,628 | \$ 1,022,628 | \$ 332,331 |
| 2024 | 950,000 | 292,638 | 122,629 | 1,072,629 | 292,638 |
| 2025 | 920,000 | 250,738 | 122,629 | 1,042,629 | 250,738 |
| 2026 | 965,000 | 209,037 | 122,629 | 1,087,629 | 209,037 |
| 2027 | 870,000 | 165,288 | 122,629 | 992,629 | 165,288 |
| 2028-2032 | 4,340,000 | 647,740 | 565,901 | 4,905,901 | 647,740 |
| 2033-2037 | 3,300,000 | 305,100 | 376,675 | 3,676,675 | 305,100 |
| 2038-2042 | 1,240,000 | 62,700 | 283,962 | 1,523,962 | 62,700 |
| 2043-2047 | - | - | 283,962 | 283,962 | - |
| 2048-2049 | - | - | 85,191 | 85,191 | - |
| Totals | <u>\$ 13,485,000</u> | <u>\$ 2,265,572</u> | <u>\$ 2,208,835</u> | <u>\$ 15,693,835</u> | <u>\$ 2,265,572</u> |

NOTE 14: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

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

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

In 2022, the City of Highland Heights paid \$82,373 in premiums from the General Fund, which represents 5.4 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 15: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among General Fund departments and other funds in proportion to the protection provided for the assets in those General Fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the General Fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical and prescription benefits are provided through Medical Mutual of Ohio from January 1 through December 31, 2022. Dental and vision benefits are provided through Delta Dental and Vision Benefits of America. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits through MMO is \$815.54 for single coverage and \$2,203.60 for family coverage. The monthly premium for dental benefits is \$32.68 for single coverage and \$94.81 for family coverage.

NOTE 16: **CONTINGENT LIABILITIES**

City management, after consultation with the City's Director of Law, is of the opinion that the ultimate disposition of such lawsuits will not result in a material adverse effect on the City's financial position.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 17: JOINTLY GOVERNED ORGANIZATION

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2022, the City contributed \$53,020. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

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

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. The City contributed \$29,450 to ESCOG in 2022.

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council ("NOPEC"). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time ensuring 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 from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The City did not contribute to NOPEC in 2022. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 17: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

NOTE 18: **INSURANCE PURCHASING POOL**

Ohio Government Benefit Cooperative

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

Participants pay an initial \$500 membership fee to OGBC. OGBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OGBC's third party administrator. Medical Mutual is the Administrator of the OGBC. During 2021, the City elected to participate in the joint insurance program for medical, prescription drug, and vision coverage. Financial information can be obtained by contacting Diane Bosley, Fiscal Officer, One Public Square, Willoughby, Ohio 44094.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2022

NOTE 19: OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2022, the City's commitments for encumbrances in the governmental funds were as follows:

| | Encumbrances Outstanding |
|-----------------------------|-----------------------------|
| General Fund | \$ 247,462 |
| Capital Improvement | 2,068,257 |
| Nonmajor Governmental Funds | 426,732 |
| Total | <u>\$ 2,742,451</u> |

NOTE 20: ACCOUNTABILITY

Fund balances at December 31, 2022 included the following individual fund deficits:

| | Deficit |
|-----------------------------|---------|
| Nonmajor Governmental Funds | |
| NOPEC Grant | 15,423 |

The General Fund is liable for any deficits in this fund and provides transfers when cash is required not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities in accordance with generally accepted accounting principles (GAAP).

NOTE 21: COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During 2021, the City received COVID-19 funding. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

**INDEPENDENT AUDITOR'S 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**

City of Highland Heights
Cuyahoga County
5827 Highland Road
Highland Heights, Ohio 44143

To the Members of City Council:

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 Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2024, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*.

Report on Internal Control Over Financial Reporting

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

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

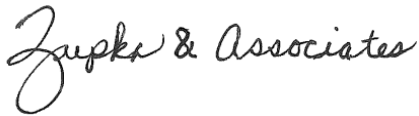
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on 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.

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.

A handwritten signature in cursive script that reads "Zupka & Associates".

Zupka & Associates
Certified Public Accountants

July 30, 2024

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022**

The prior audit report, as of December 31, 2021, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.