

CITY OF HIGHLAND HEIGHTS, OHIO

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004



**Auditor of State
Betty Montgomery**

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 James G. Zupka, CPA, Inc. for the audit period January 1, 2004 through December 31, 2005. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 14, 2006

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CITY OF HIGHLAND HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Finance Director,
and Members of City Council
City of Highland Heights, Ohio

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, Ohio, as of and for the years ended December 31, 2005 and 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Ohio, as of December 31, 2005 and 2004, the respective changes in financial position, where applicable, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006 on our consideration of the City of Highland Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 for 2005 and pages 53 through 59 for 2004 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

June 8, 2006

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

The discussion and analysis of the City of Highland Heights' financial performance provides an overall review of the City's financial activities for the fiscal years ended December 31, 2005 and 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL INFORMATION

Key financial highlights for 2005 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$44,777,474. Of this amount, \$3,181,674 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets increased by \$118,399 from the prior year.
- Total liabilities decreased by \$1,188,108 from prior year.
- The unreserved fund balance for the general fund was \$2,552,350, or 32.9 percent of the total general fund expenditures.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: **1)** government-wide statements; **2)** fund financial statements; and **3)** notes to the financial statements.

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utilities, community environment, leisure time activities, and public health services. There are no business-type activities reported for the City.

Fund Financial Statements

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

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in the financial statements.

Fiduciary Funds - Used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets slightly increased from a year ago - increasing from \$44,659,075 in 2004 to \$44,777,474 in 2005 or .27 percent from the prior year. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

Table 1 - Net Assets

	Governmental Activities	
	12/31/2005	12/21/2004
<u>Assets</u>		
Current and Other Assets	\$ 18,977,474	\$19,799,767
Capital Assets	46,850,506	47,097,922
Total Assets	<u>\$ 65,827,980</u>	<u>\$66,897,689</u>
<u>Liabilities</u>		
Long-Term Liabilities	\$ 17,274,854	\$18,507,490
Other Liabilities	3,775,652	3,731,124
Total Liabilities	<u>21,050,506</u>	<u>22,238,614</u>
<u>Net Assets</u>		
Invested in Capital Assets Net of Debt	29,654,382	29,662,320
Restricted	11,941,418	11,941,418
Unrestricted	3,181,674	3,055,337
Total Net Assets	<u>\$ 44,777,474</u>	<u>\$44,659,075</u>

Table 2 - Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,179,782	\$ 1,151,350
Operating Grants and Contributions	507,412	392,305
Capital Grants and Contributions	1,810,126	87,674
General Revenues:		
Property Taxes	1,488,624	1,407,293
Income Taxes	5,944,532	6,134,187
Other Taxes	14,791	27,466
Grants and Entitlements	561,988	528,111
Other	403,269	174,874
Total Revenues	<u>11,910,524</u>	<u>9,903,260</u>
<u>Program Expenses</u>		
General Government	2,067,419	1,980,463
Security of Persons and Property	5,106,715	4,893,956
Leisure Time Activities	688,072	684,572
Community Environment	275,877	256,551
Basic Utility Services	1,721,621	1,485,029
Transportation	1,208,305	976,297
Interest and Fiscal Charges	724,116	764,210
Total Program Expenses	<u>11,792,125</u>	<u>11,041,078</u>
Increase (Decrease) in Net Assets	<u>\$ 118,399</u>	<u>\$ (1,137,818)</u>

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

Total revenues increased in 2005. This is primarily due to a decrease in the amount of completed infrastructure from developments. The City's largest revenue source is income tax. The City's income tax rate is 1.50 percent on gross income and has not changed since 1981 when the tax was increased by .50 percent by a vote of the residents. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax for Highland Heights. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2005 the income tax collected was \$5,944,532. There was a net decrease of about \$190,000 compared to prior year's collections mainly attributable to the estimate of taxes receivable. The second largest revenue source is property taxes. The full voted tax rate for 2005 was 95.80 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, the City of Highland Heights, the Mayfield City School District, and the Cuyahoga County Library System. During 2005, the property tax collected was approximately \$1.5 million.

Total expenses increased in 2005. This is primarily due to increases in general operating expenses in the areas of general government and security to persons and property mainly due to personnel costs. Other expenses remained relatively stable compared to prior year. Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, police and fire communications, and public safety, represented 43.31 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time sworn officers, 1 part-time, and 7 auxiliary sworn officers, 4 full-time and 3 part-time dispatchers, and 3 secretaries. The Fire Department is comprised of 1 chief and 17 full-time and 15 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is General Government, \$2,067,419 and 17.53 percent, followed closely by Basic Utility Services, \$1,721,621 and 14.60 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration. The City has an annual road program which entails major and minor resurfacing of the various streets in the City. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City has borrowed on the open market by way of general obligation bonds and notes.

THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

As of the end of the current fiscal period, the City's governmental funds reported combined ending fund balances of \$4,650,590. Of this amount, \$4,281,156 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior periods(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,552,350, while the total general fund balance was \$2,705,838. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balance represents 32.9 percent of total general fund expenditures, while total general fund balance represents 34.9 percent of the same amount.

GENERAL FUND BUDGETARY HIGHLIGHTS

The most significant budgeted fund is the general fund. Over the course of the year, the City Council revised the City's general fund budget once to prevent budget overruns.

For the general fund, budgeted basis revenue was \$7,397,902. This was a decrease from the original budgeted revenue of \$8,187,316.

The original appropriation of \$8,276,771 was increased to \$8,369,571. Even with these adjustments, the actual charges to appropriations (expenditures) were \$274,971 below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had \$46,850,506 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below). This amount represents a net decrease (including additions and deductions) of approximately \$247,416, or .53 percent under last year.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

Table 3 - Capital Assets at Year-End (Net of Depreciation)

	<u>2005</u>	<u>2004</u>
Land	\$ 2,870,801	\$ 2,870,801
Construction-in-Progress	21,246	21,246
Buildings	3,511,031	3,695,379
Machinery and Equipment	1,057,768	1,098,357
Furniture and Equipment	22,230	24,057
Vehicles	273,755	383,877
Infrastructure:		
Roads	11,789,400	11,934,073
Water Mains	6,961,780	6,894,778
Storm Sewers	10,954,483	10,683,036
Sanitary Sewers	9,001,497	9,095,413
Culverts	151,988	156,366
Traffic Signals	39,633	41,314
Bridges	194,894	199,225
Total	<u>\$ 46,850,506</u>	<u>\$ 47,097,922</u>

The City purchased minimal equipment in 2005 for various departments including \$57,000 for a new HVAC unit for the Police and Fire Departments.

The City spent \$15,000 for the painting of the City Pool, which is continuous maintenance, in the municipal park complex.

The City authorized the 2005 Sidewalk Repair program in the amount of \$111,250.

The City continued its road replacement and maintenance program by expending \$222,000 for interim resurfacing projects as well as miscellaneous concrete repairs and crack sealing. The City also spent \$36,000 on street striping.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

Debt

The City had \$17,955,261 in outstanding debt at December 31, 2005 compared to \$19,035,602 at December 31, 2004, as shown in Table 4.

Table 4 - Outstanding Debt at Year-End

	Governmental Activities	
	2005	2004
General Obligation Bonds	\$ 8,708,737	\$ 9,210,749
Special Assessment Bonds	5,046,262	5,419,250
Notes	1,600,000	1,600,000
OPWC Loans	2,560,739	2,732,385
Capital Lease	39,523	73,218
Total	\$ 17,955,261	\$ 19,035,602

The City paid \$502,012 on principal for general obligation bonds, \$554,633 on principal for special assessment bonds and OPWC loans, and \$1.6 million on short term notes. The majority of projects funded through long-term debt deal directly with infrastructure improvements. All OPWC loans are a 0 percent interest rate. New general obligation notes were issued for improvements to the Aberdeen Business Park in the amount of \$1,600,000.

The City's general obligation bond rating continues to carry an AA3 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well below the state-imposed limit.

Other obligations include accrued vacation and sick leave and capital leases. More detailed information about the City's long-term liabilities is presented in Note 14 to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anthony L. Ianiro, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.

Financial Statements
and Notes to the Financial Statements
for the Year ended December 31, 2005

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 4,019,192
Materials and Supplies Inventory	58,996
Accrued Interest Receivable	24,121
Accounts Receivable	22,516
Intergovernmental Receivable	439,772
Prepaid Items	102,059
Investments	1,485,864
Taxes Receivable	2,718,147
Special Assessments Receivable	10,106,807
Nondepreciable Capital Assets	2,892,047
Depreciable Capital Assets, Net	<u>43,958,459</u>
Total Assets	<u>65,827,980</u>
 <u>Liabilities</u>	
Accounts Payable	267,440
Accrued Wages	122,335
Intergovernmental Payable	99,514
Pension Payable	187,305
Accrued Interest Payable	80,507
Deferred Revenue	1,418,551
Notes Payable	1,600,000
Long-Term Liabilities:	
Due Within One Year	1,111,822
Due In More Than One Year	<u>16,163,032</u>
Total Liabilities	<u>21,050,506</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	29,654,382
Restricted for:	
Debt Service	11,377,539
Other Purposes	563,879
Unrestricted	<u>3,181,674</u>
Total Net Assets	<u>\$44,777,474</u>

See accompanying notes to the basic financial statements.

**CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:					
Security of Persons and Property	\$5,106,715	\$ 319,977	\$ 11,266	\$ 0	\$ (4,775,472)
Leisure Time Activities	688,072	282,667	0	0	(405,405)
Community Environment	275,877	243,307	0	766,087	733,517
Basic Utility Services	1,721,621	68	0	1,044,039	(677,514)
Transportation	1,208,305	220,714	496,146	0	(491,445)
General Government	2,082,213	113,049	0	0	(1,969,164)
Interest and Fiscal Charges	<u>724,116</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(724,116)</u>
Total Governmental Activities	<u>11,806,919</u>	<u>1,179,782</u>	<u>507,412</u>	<u>1,810,126</u>	<u>(8,309,599)</u>
 General Revenues:					
Property Taxes Levied for:					
General Purposes					799,214
Special Revenue					560,556
Debt Service					153,404
Municipal Income Taxes Levied for:					
General Purposes					5,350,078
Debt Service					594,454
Other Taxes					14,791
Grants and Entitlements not Restricted to Special Programs					537,438
Investment Earnings					196,044
Miscellaneous					<u>222,019</u>
Total General Revenues					<u>8,427,998</u>
Change in Net Assets					118,399
Net Assets, Beginning of Year					<u>44,659,075</u>
Net Assets End of Year					<u>\$ 44,777,474</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Special Assessment Bond Retirement	Aberdeen Business Park	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 634,897	\$ 768,937	\$ 132,204	\$ 2,483,154	\$ 4,019,192
Investments	1,485,864	0	0	0	1,485,864
Receivables:					
Taxes	1,936,513	0	0	781,634	2,718,147
Accounts	22,516	0	0	0	22,516
Accrued Interest	8,040	0	0	16,082	24,122
Special Assessments	4,549	9,884,928	0	217,330	10,106,807
Intergovernmental	163,647	0	0	276,125	439,772
Inventory	17,583	0	0	41,413	58,996
Prepaid Items	102,059	0	0	0	102,059
Total Assets	<u>\$ 4,375,668</u>	<u>\$10,653,865</u>	<u>\$ 132,204</u>	<u>\$ 3,815,738</u>	<u>\$ 18,977,475</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 179,225	\$ 0	\$ 0	\$ 88,215	\$ 267,440
Accrued Wages and Benefits	119,377	0	0	2,958	122,335
Due to Governments	93,587	0	0	5,927	99,514
Pension Payable	186,904	0	0	401	187,305
Deferred Revenue	1,090,737	9,884,928	0	1,074,626	12,050,291
Notes Payable	0	0	1,600,000	0	1,600,000
Total Liabilities	<u>1,669,830</u>	<u>9,884,928</u>	<u>1,600,000</u>	<u>1,172,127</u>	<u>14,326,885</u>
Fund Balances					
Reserved for Inventory	17,583	0	0	41,413	58,996
Reserved for Prepaid Items	102,059	0	0	0	102,059
Reserved for Encumbrances	33,846	0	0	174,533	208,379
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	2,552,350	0	0	0	2,552,350
Special Revenue Funds	0	0	0	1,149,019	1,149,019
Debt Service Funds	0	768,937	0	335,254	1,104,191
Capital Projects Funds	0	0	(1,467,796)	943,392	(524,404)
Total Fund Balances (Deficits)	<u>2,705,838</u>	<u>768,937</u>	<u>(1,467,796)</u>	<u>2,643,611</u>	<u>4,650,590</u>
Total Liabilities and Fund Balances	<u>\$ 4,375,668</u>	<u>\$10,653,865</u>	<u>\$ 132,204</u>	<u>\$ 3,815,738</u>	<u>\$18,977,475</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005

Total Governmental Funds Balances \$ 4,650,590

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 46,850,506

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

Property Taxes	\$ 66,080	
Grants and Entitlements	293,119	
Income Tax	165,733	
Special Assessments	<u>10,106,807</u>	
Total		10,631,739

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

General Obligation Bonds	(8,708,737)	
Special Assessment Bonds	(5,046,262)	
OPWC Loan	(2,560,739)	
Capital Leases	(39,523)	
Compensated Absences	(919,593)	
Accrued Interest Payable	<u>(80,507)</u>	
Total		<u>(17,355,361)</u>

Net Assets of Governmental Activities \$44,777,474

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Special Assessment Bond Retirement	Aberdeen Business Park	Other Governmental Funds	Total Governmental Funds
Revenues					
Municipal Income Taxes	\$ 5,622,449	\$ 0	\$ 0	\$ 624,717	\$ 6,247,166
Property Taxes	785,549	0	0	725,701	1,511,250
Other Taxes	0	0	0	273,943	273,943
Intergovernmental Revenue	323,550	0	0	465,910	789,460
Special Assessments	35,312	798,673	0	233,405	1,067,390
Charges for Services	142,370	0	0	261,382	403,752
Fines, Licenses, and Permits	507,257	0	0	2,305	509,562
Interest Income	62,707	0	0	127,398	190,105
Miscellaneous	195,551	0	0	14,379	209,930
Total Revenues	<u>7,674,745</u>	<u>798,673</u>	<u>0</u>	<u>2,729,140</u>	<u>11,202,558</u>
Expenditures					
Security of Persons and Property	4,449,201	0	0	581,288	5,030,489
Leisure Time Activities	106,351	0	0	502,172	608,523
Community Environment	262,397	0	0	348	262,745
Basic Utilities Services	939,973	0	0	0	939,973
Transportation	726	0	0	574,106	574,832
General Governments	2,002,550	7,613	0	9,910	2,020,073
Capital Outlay	0	0	3,446	287,599	291,045
Debt Service:					
Principal Retirement	0	537,372	0	509,274	1,046,646
Interest and Fiscal Charges	0	293,871	32,000	437,264	763,135
Total Expenditures	<u>7,761,198</u>	<u>838,856</u>	<u>35,446</u>	<u>2,901,961</u>	<u>11,537,461</u>
Excess of Revenues Over (Under) Expenditures	<u>(86,453)</u>	<u>(40,183)</u>	<u>(35,446)</u>	<u>(172,821)</u>	<u>(334,903)</u>
Other Financing Sources (Uses)					
Note Premium	0	0	5,140	0	5,140
Transfers In	0	5,848	32,000	415,877	453,725
Transfers Out	(315,000)	(877)	0	(137,848)	(453,725)
Total Other Financing Sources (Uses)	<u>(315,000)</u>	<u>4,971</u>	<u>37,140</u>	<u>278,029</u>	<u>5,140</u>
Net Change in Fund Balances	(401,453)	(35,212)	1,694	105,208	(329,763)
Fund Balances (Deficit) - Beginning of Year	3,104,337	804,149	(1,469,490)	2,529,818	4,968,814
Increase (Decrease) in Reserve for Inventory	2,954	0	0	8,585	11,539
Fund Balances (Deficits) - End of Year	<u>\$ 2,705,838</u>	<u>\$ 768,937</u>	<u>\$(1,467,796)</u>	<u>\$ 2,643,611</u>	<u>\$ 4,650,590</u>

See accompanying notes to the basic financial statements.

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, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (329,763)

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Asset Additions	1,371,692	
Current Year Depreciation	<u>(1,604,314)</u>	
Total		(232,622)

The net effect of other transactions involving capital assets is to increase net assets (sales, trade-ins, and donations). (14,794)

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

Property Taxes	1,924	
Grants and Entitlements	(3,763)	
Municipal Income Tax	(302,635)	
Special Assessments	<u>(249,447)</u>	
Total		(553,921)

Repayment of bond principal, police pension, and landfill closure costs are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,080,341

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 5,324

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in government funds.

Compensated Absences	152,295	
Change in Inventory	<u>11,539</u>	
Total		<u>163,834</u>

Change in Net Assets of Governmental Activities **\$ 118,399**

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Income Taxes	\$ 5,890,265	\$ 5,322,331	\$ 5,341,307	\$ 18,976
Property Taxes	866,285	782,758	785,549	2,791
Intergovernmental	369,948	334,278	335,470	1,192
Special Assessments	38,941	35,187	35,312	125
Charges for Services	176,761	159,718	160,287	569
Fines, Licenses, and Permits	557,897	504,105	505,902	1,797
Interest Income	71,570	64,669	64,900	231
Miscellaneous	<u>215,649</u>	<u>194,856</u>	<u>195,551</u>	<u>695</u>
Total Revenues	<u>8,187,316</u>	<u>7,397,902</u>	<u>7,424,278</u>	<u>26,376</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	4,569,153	4,582,453	4,458,245	124,208
Leisure Time Activities	119,923	119,923	104,780	15,143
Community Environment	270,516	274,016	267,547	6,469
Basic Utility	979,668	979,668	940,453	39,215
General Government	1,922,511	2,033,511	1,958,987	74,524
Capital Outlay	<u>100,000</u>	<u>65,000</u>	<u>49,588</u>	<u>15,412</u>
Total Expenditures	<u>7,961,771</u>	<u>8,054,571</u>	<u>7,779,600</u>	<u>274,971</u>
Excess of Revenues Over (Under) Expenditures	<u>225,545</u>	<u>(656,669)</u>	<u>(355,322)</u>	<u>301,347</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	<u>(315,000)</u>	<u>(315,000)</u>	<u>(315,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(315,000)</u>	<u>(315,000)</u>	<u>(315,000)</u>	<u>0</u>
Net Change in Fund Balance	(89,455)	(971,669)	(670,322)	301,347
Fund Balance at Beginning of Year	<u>2,795,796</u>	<u>2,795,796</u>	<u>2,795,796</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 2,706,341</u>	<u>\$ 1,824,127</u>	<u>\$ 2,125,474</u>	<u>\$ 301,347</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 500,918
Accounts Receivable	<u>387</u>
Total Assets	<u>\$ 501,305</u>
<u>Liabilities</u>	
Accounts Payable	\$ 4,642
Deposits Held and Due to Others	<u>496,663</u>
Total Liabilities	<u>\$ 501,305</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 Highland Heights 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 three organizations which are defined as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 20 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 16) and a joint venture (Note 19).

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, 2005
(CONTINUED)

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 assets 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 assets 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 assets 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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: governmental and fiduciary.

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 liabilities is 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 of Highland Heights and/or the general laws of Ohio.

Special Assessment Bond Retirement Fund – The special assessment bond retirement fund accounts for special assessments levied to pay principal and interest on debt issued to finance the benefitted property owners' share of the cost of various projects.

Aberdeen Business Park Capital Project Fund - The Aberdeen Business Park capital project fund accounts for the acquisition or construction of its capital items in assistance with the Aberdeen Business Park.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust fund. Agency

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

B. Fund Accounting (Continued)

Fiduciary Funds (Continued)

funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

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 all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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 current liabilities 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 a reconciliation 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 revenue, and the presentation of expense versus expenditures.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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

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 7). 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.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes, for which there is an enforceable legal claim as of December 31, 2005 but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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

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

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

E. **Pooled Cash and Cash Equivalents**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash balances of all City funds are pooled and invested. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as Cash and Cash Equivalents. Cash equivalents consist of STAROhio and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2005. The allocation of interest earnings from investments to the City's funds is governed by the City Charter. Interest revenue credited to the general fund during 2005 amounted to \$62,707.

During fiscal year 2005, investments were limited to STAROhio, non-negotiable certificates of deposit, repurchase agreements, and U.S. Government Securities.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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, 2005 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

The City's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets 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 fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, water mains, storm sewers, culverts, and bridges. 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

H. **Capital Assets** (Continued)

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:

Description	Governmental Activities Estimated Lives
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 "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net assets.

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.

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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

J. **Compensated Absences** (Continued)

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, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. **Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, and prepaids.

M. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

M. **Net Assets** (Continued)

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

Q. **Budgetary Data** (Continued)

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 2005, there were few significant 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.

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, 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 reservations of fund balances for subsequent year expenditures in the governmental funds.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

Q. **Budgetary Data** (Continued)

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.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

Fund Deficit

Fund balance at December 31, 2005 included the following individual fund deficit:

Aberdeen Business Park Capital Project Fund	\$1,467,796
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The deficit in the Aberdeen Business Park capital project fund resulted from the recognition of short-term bond anticipation notes as fund liability as opposed to revenue. The fund deficit will be reversed when the bond is issued. The deficit does not exist under the budgetary basis of accounting. The general fund provides transfer when cash is required, not when accrual occurs.

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. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- e. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

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

Net Change in Fund Balance	<u>General</u>
GAAP Basis	\$ (401,453)
Increase (Decrease) Due to:	
Revenue Accruals	(250,467)
Expenditure Accruals	<u>(18,402)</u>
Budgetary Basis	<u><u>\$ (670,322)</u></u>

NOTE 5: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City; however, additional note disclosure can be found in Note 6. The implementation of GASB Statement No. 42 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, 2005
(CONTINUED)

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are 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;

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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

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, 2005, 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 Cash Equivalents".

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

B. Deposits

At December 31, 2005 the carrying amount of the City's deposits was \$2,624,016 (including \$1,550,000 in certificate of deposits). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2005, \$397,533 of the City's bank balance was covered by Federal Depository Insurance and \$2,226,483 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposit may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC is held in financial institution pools at Federal Reserve Banks, or at member banks of the federal reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at a Federal Reserve Bank in the name of the City.

C. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2005, fair value was below the City's net cost for investments. At December 31, 2005, fair value was \$14,136 below net cost. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

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, 2005
(CONTINUED)

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

E. Credit Risk

The credit risk of the City's investments are in the table below. Ohio law requires that STAROhio 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 U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. 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.

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 U.S. Agency notes and STAROhio represents 40.3 percent of the City's total investments.

Cash and investments at year-end were as follows:

<u>Cash and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>	
			<u><1</u>	<u>1-2</u>
STAROhio	\$ 1,436,676	AAAm	\$ 1,436,676	\$ 0
Repurchase Agreement	100,000	AAA	100,000	0
U. S. Agencies	985,864	AAA	985,864	0
Victory Federal Money Market Fund	359,418	AAAm	359,418	0
Certificates of Deposit	500,000		500,000	0
Carrying Amount of Deposits	<u>2,624,016</u>		<u>2,624,016</u>	<u>0</u>
Total Cash and Investments	<u>\$ 6,005,974</u>		<u>\$ 6,005,974</u>	<u>\$ 0</u>

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

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: RECEIVABLES

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes which became a lien at December 31, 2004 are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004 on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2005 was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property - 2005 Tax Valuation	\$ 344,126,560
Public Utility Tangible Property - 2005 Tax Valuation	3,557,360
Tangible Personal Property - 2005 Tax Valuation	<u>40,070,599</u>
Total	<u>\$ 387,754,519</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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the general, police pension, fire pension, parks and recreation, and general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 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**

An income tax of 1.5 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

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 by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

Special assessments expected to be collected in more than one year amount to \$9,306,807 in the special assessment bond retirement fund. At December 31, 2005, the amount of delinquent special assessments was \$66,837.

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 reported in the Bond Retirement Fund. Additionally, the City receives estate taxes which are used for the purpose of making long-term capital improvements and the improvements of infrastructure, including the City Hall Complex and Municipal Park. All estate taxes are reported in the Capital Project Capital Improvement Fund.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

E. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Estate Tax	\$ 36,954
Gasoline Tax	124,301
Local Government	112,079
Homestead and Rollback	91,814
Utility Property Tax Loss Reimbursement	12,277
Auto Registration	56,819
Permissive Tax	5,528
Total Governmental Activities	\$ 439,772

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

	<u>Transfer From</u>		
<u>Transfer To</u>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Aberdeen Business Park	\$ 0	\$ 32,000	\$ 32,000
Nonmajor Governmental Funds	315,000	106,725	421,725
Total	\$ 315,000	\$ 138,725	\$ 453,725

The transfer of \$32,000 from the general bond retirement debt service fund to the Aberdeen Business Park fund was made for the payment of interest on bond anticipation notes, transfers of \$50,000 from the Park and Recreation Fund to the General Bond Retirement Fund made for the debt of the swimming pool, and the other interfund transfers were made to provide additional resources for current operations.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2005 follows:

	Balance <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/05</u>
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land and Land Improvements	\$ 2,870,801	\$ 0	\$ 0	\$ 2,870,801
Construction in Progress	<u>21,246</u>	<u>0</u>	<u>0</u>	<u>21,246</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,892,047</u>	<u>0</u>	<u>0</u>	<u>2,892,047</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	6,590,997	0	0	6,590,997
Machinery and Equipment	2,414,958	95,656	(7,266)	2,503,348
Furniture and Fixtures	52,181	0	0	52,181
Vehicles	1,308,528	15,581	(44,682)	1,279,427
Infrastructure				
Roads	18,327,819	216,416	0	18,544,235
Water Mains	10,999,901	292,857	0	11,292,758
Sanitary Sewers	12,505,138	159,374	0	12,664,512
Storm Sewers	15,426,230	591,808	0	16,018,038
Culverts	230,335	0	0	230,335
Bridges	216,549	0	0	216,549
Traffic Signals	<u>84,068</u>	<u>0</u>	<u>0</u>	<u>84,068</u>
Totals at Historical Cost	<u>68,156,704</u>	<u>1,371,692</u>	<u>(51,948)</u>	<u>69,476,448</u>
Less Accumulated Depreciation:				
Buildings	(2,895,618)	(184,348)	0	(3,079,966)
Machinery and Equipment	(1,316,601)	(136,157)	7,178	(1,445,580)
Furniture and Equipment	(28,124)	(1,827)	0	(29,951)
Vehicles	(924,651)	(110,997)	29,976	(1,005,672)
Infrastructures				
Roads	(6,393,746)	(361,089)	0	(6,754,835)
Water Mains	(4,105,123)	(225,855)	0	(4,330,978)
Sanitary Sewers	(3,409,725)	(253,290)	0	(3,663,015)
Storm Sewers	(4,743,194)	(320,361)	0	(5,063,555)
Culverts	(73,969)	(4,378)	0	(78,347)
Bridges	(17,324)	(4,331)	0	(21,655)
Traffic Signals	<u>(42,754)</u>	<u>(1,681)</u>	<u>0</u>	<u>(44,435)</u>
Total Accumulated Depreciation	<u>(23,950,829)</u>	<u>(1,604,314)</u>	<u>37,154</u>	<u>(25,517,989)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>44,205,875</u>	<u>(232,622)</u>	<u>(14,794)</u>	<u>43,958,459</u>
Governmental Activities Capital Assets, Net	<u>\$ 47,097,922</u>	<u>\$ (232,622)</u>	<u>\$ (14,794)</u>	<u>\$ 46,850,506</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 56,005
Security of Persons and Property	199,262
Basic Utilities	803,884
Community Environment	6,466
Leisure Time Activities	82,908
Transportation	<u>455,789</u>
Total Depreciation Expense	<u>\$ 1,604,314</u>

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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 accumulated by each employee, with the exception of firemen, which can accumulate 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. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004 and 2003 were \$292,910, \$279,141, and \$277,770, respectively; 92.3 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member directed plan for 2005 were \$206,442 made by the City and \$86,468 made by the plan members.

B. **Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability 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. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$298,144 and \$284,710 for the year ended December 31, 2005, \$281,287 and \$253,297 for the year ended December 31, 2004, and \$164,152 and \$164,655 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 72.03 percent and 71.79 percent, respectively, have been contributed for 2005.

CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 12: POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund post-employment benefits were \$86,468. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. **Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F funds shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post-employment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)**

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$118,493 for police and \$91,938 for fire. The OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

NOTE 13: **NOTES PAYABLE**

Note activity for the year ended December 31, 2005 consisted of the following:

	<u>Balance</u> <u>12/31/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/05</u>
<u>Capital Projects Funds</u>				
3% Bond Anticipation Notes, issued 2003 (Aberdeen Business Park)				
(Renew 2003 issue) \$1,600,000	\$ 1,600,000	\$ 1,600,000	\$ (1,600,000)	\$ 1,600,000
Total	<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>	<u>\$ (1,600,000)</u>	<u>\$ 1,600,000</u>

All the notes are backed by the full faith and credit of the City. In governmental fund financial statements the note liability is reflected in the fund which received the proceeds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2005 are as follows:

	Balance 12/31/04	Additions	Retirements	Balance 12/31/05	Amounts Due in One Year
General Obligation Bonds					
1992 \$1,440,000 Various Purpose improvement bonds, 4.0-6.2%	\$ 610,000	\$ 0	\$ (65,000)	\$ 545,000	\$ 70,000
1997 \$6,495,000 Various Purpose Improvement Bonds, 3.75-5.25%	4,830,000	0	(270,000)	4,560,000	280,000
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	150,749	0	(7,012)	143,737	7,012
2001 \$4,065,000 Various Purpose Improvement Bonds, 3.0-4.8%	3,620,000	0	(160,000)	3,460,000	165,000
Total General Obligation Bonds	<u>9,210,749</u>	<u>0</u>	<u>(502,012)</u>	<u>8,708,737</u>	<u>522,012</u>
Special Assessment (a)					
1999 \$837,080 Alpha Improvement Assessment 5.2-6.5%	709,250	0	(32,988)	676,262	32,988
1999 \$1,280,000 Refunding of Special Assessment (Whiteford and Alpha), 5.2-6.5%	655,000	0	(150,000)	505,000	155,000
1999 \$4,460,000 Street Improvement (Aberdeen Blvd.) Bonds, 4.1-5.7%	3,875,000	0	(165,000)	3,710,000	170,000
1990 \$380,000 Street Improvement (Bishop Rd.) Bonds, 7.357%	180,000	0	(25,000)	155,000	25,000
Total Special Assessment Bonds	<u>5,419,250</u>	<u>0</u>	<u>(372,988)</u>	<u>5,046,262</u>	<u>382,988</u>
Ohio Public Works Commission					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	1,271,486	0	(82,031)	1,189,455	82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewer, 0%	768,248	0	(48,016)	720,232	48,016
1998 \$145,238 Millridge Water Main Replacement, 0%	108,928	0	(7,262)	101,666	7,262
1999 \$686,733 Sanitary Sewers Selected Locations, 0%	583,723	0	(34,337)	549,386	34,337
Total Ohio Public Works Commission	<u>2,732,385</u>	<u>0</u>	<u>(171,646)</u>	<u>2,560,739</u>	<u>171,646</u>
Capital Lease					
2001 Vacuum Street Sweeper and Leaf Collector	64,024	0	(31,320)	32,704	32,704
2002 Canon Copier	9,194	0	(2,375)	6,819	2,472
Total Capital Lease	<u>73,218</u>	<u>0</u>	<u>(33,695)</u>	<u>39,523</u>	<u>35,176</u>
Compensated Absences	<u>1,071,888</u>	<u>70,745</u>	<u>(223,040)</u>	<u>919,593</u>	<u>0</u>
Total Governmental Long-Term Obligations	<u>\$ 18,507,490</u>	<u>\$ 70,745</u>	<u>\$(1,303,381)</u>	<u>\$17,274,854</u>	<u>\$ 1,111,822</u>

(a) Includes only the portion of the bonds expected to be paid from special assessments. The remaining portion (City's share) of the bonds is to be paid from general City revenues and is included under the "General Obligation Bonds" caption.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

The 1992 bonds were issued to improve the municipal sewerage system by constructing storm sewers and culverts. The 1997 bonds were a consolidated issue for the construction and improvement of streets, sewer systems, water mains and storm water retention facilities, and the acquisition of a pumper truck. The 1999 issue was for the City's portion of the improvement of Alpha Street. The 2001 series were issued for the improvement of streets, acquiring and installing communications equipment for the Dispatch Center, and installing a roof on the City's municipal complex.

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.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment bond retirement fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The Ohio Public Works Commission (OPWC) loans will be paid by revenues transferred from the general fund. See Note 15 for further details on capital leases. Compensated absences will be paid from the respective fund from which the employee's salary is paid.

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, the City at December 31, 2005 had the capacity to issue \$26,104,788 of additional general obligation debt.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2005 from the general resources of the City are as follows:

Year	General Obligation Bonds		Special Assessments		OPWC Loan	Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2006	\$ 522,012	\$ 415,666	\$ 382,988	\$ 274,207	\$ 171,645	\$ 35,176	\$ 1,000
2007	547,888	392,601	412,112	253,864	171,645	2,573	127
2008	527,888	368,182	442,112	231,716	171,645	1,774	76
2009	557,888	344,375	267,112	207,882	171,645	0	0
2010	578,765	318,825	281,235	193,139	171,645	0	0
2011-2015	3,066,711	1,165,107	1,448,289	745,298	858,227	0	0
2016-2020	2,367,587	434,572	1,812,413	308,010	809,950	0	0
2021-2025	540,000	98,848	0	0	34,337	0	0
Totals	<u>\$ 8,708,739</u>	<u>\$ 3,538,176</u>	<u>\$ 5,046,261</u>	<u>\$ 2,214,116</u>	<u>\$ 2,560,739</u>	<u>\$ 39,523</u>	<u>\$ 1,203</u>

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 15: CAPITAL LEASES

The City entered into an agreement with Lake Business Products, Inc. in June 2003 to lease one Canon digital copier in the amount of \$12,217. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date as capital assets and long-term debt. The City entered into an agreement with Bank One Leasing Corporation in December 2001 to lease one vacuum street sweeper in the amount of \$150,259.

The cost and accumulated depreciation of the assets acquired through capital leases are as follows:

<u>Governmental Activities</u>	<u>Street Sweeper</u>	<u>Canon Copier</u>	<u>Total</u>
Asset:			
Equipment	\$ 150,259	\$ 12,217	\$ 162,476
Less: Accumulated Depreciation	<u>(28,195)</u>	<u>(6,312)</u>	<u>(34,507)</u>
Net Value	<u>\$ 122,064</u>	<u>\$ 5,905</u>	<u>\$ 127,969</u>

The future minimum lease obligation and the net present value of these capital leases as of December 31, 2005 are as follows:

Future Minimum Lease Obligation	\$ 34,110	\$ 7,337	\$ 41,447
Less: Interest	<u>(1,406)</u>	<u>(518)</u>	<u>(1,924)</u>
Net Present Value	<u>\$ 32,704</u>	<u>\$ 6,819</u>	<u>\$ 39,523</u>

NOTE 16: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

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

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 16: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION** (Continued)

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. 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 2005, the City of Highland Heights paid \$81,893 in premiums from the general fund, which represents 5.38 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio, 44146.

NOTE 17: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

The medical and prescription benefits are provided through Medical Mutual of Ohio and dental benefits are provided through Assurant. Payments are made from the general fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits is \$365.85 for single coverage and \$914.75 for family coverage. The monthly premium for dental benefits is \$36.13 for single coverage and \$108.71 for family coverage.

NOTE 18: **CONTINGENT LIABILITIES**

The City is a defendant in a number of lawsuits. 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 19: **JOINT VENTURE**

Tri-City Consortium on Aging Council of Governments

The Tri-City Consortium on Aging (Consortium) is a joint venture among the cities of Highland Heights, Lyndhurst, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member cities and Federal grants. The governing board of the Consortium is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, and South Euclid, with the advice of a nine-member commission. Continued existence of the Consortium is dependent on the City; however, the City has no explicit and measurable equity interest in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2005, the City contributed \$71,114, which represents 17.2 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

NOTE 20: **JOINTLY GOVERNED ORGANIZATION**

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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

Eastern Suburban Regional Council of Governments (Continued)

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. In 2005, the City contributed \$12,500, which represents 16.7 percent of the total contributions.

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 2004. Financial information can be obtained by contacting NOPEC at 1615 Clarke Avenue, Cleveland, Ohio 44109.

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.

Financial Statements
and Notes to the Financial Statements
for the Year ended December 31, 2004

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

The discussion and analysis of the City of Highland Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL INFORMATION

Key financial highlights for 2004 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$44,659,075. Of this amount, \$3,055,337 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets decreased by \$1,137,818 from the prior year.
- The unreserved fund balance for the general fund was \$2,934,432, or 38.6 percent of the total general fund expenditures.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: **1)** government-wide statements; **2)** fund financial statements; and **3)** notes to the financial statements.

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utilities, community environment, leisure time activities, and public health services. There are no business-type activities reported for the City.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

Fund Financial Statements

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

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in the financial statements.

Fiduciary Funds - Used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets slightly decreased from a year ago - decreasing from \$45,796,893 in 2003 to \$44,659,075 in 2004 or 2.5 percent from the prior year. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

Table 1 - Net Assets

	Governmental Activities	
	12/31/2004	12/31/2003 (Restated)
Assets		
Current and Other Assets	\$19,799,767	\$ 21,146,984
Capital Assets	47,097,922	48,118,909
Total Assets	<u>\$66,897,689</u>	<u>\$ 69,265,893</u>
Liabilities		
Long-Term Liabilities	\$18,507,490	\$ 19,546,141
Other Liabilities	3,731,124	3,922,859
Total Liabilities	<u>22,238,614</u>	<u>23,469,000</u>
Net Assets		
Invested in Capital Assets Net of Debt	29,662,320	29,654,382
Restricted	11,941,418	14,729,296
Unrestricted	3,055,337	1,413,215
Total Net Assets	<u>\$44,659,075</u>	<u>\$ 45,796,893</u>

Table 2 - Change in Net Assets

	Governmental Activities	
	2004	2003 (Restated)
Revenues		
Program Revenues:		
Charges for Services	\$ 1,151,350	\$ 950,455
Operating Grants and Contributions	392,305	256,960
Capital Grants and Contributions	87,674	649,632
General Revenues:		
Property Taxes	1,407,293	1,332,580
Income Taxes	6,134,187	6,332,660
Other Taxes	27,466	23,437
Grants and Entitlements	528,111	493,042
Other	205,698	36,795
Total Revenues	<u>9,934,084</u>	<u>10,075,561</u>
Program Expenses		
Security of Persons and Property	4,893,956	4,675,858
Leisure Time Activities	684,572	616,029
Community Environment	256,551	303,971
Basic Utility Services	1,485,029	587,382
Transportation	976,297	24,926
General Government	2,011,287	1,984,882
Interest and Fiscal Charges	764,210	838,118
Total Program Expenses	<u>11,071,902</u>	<u>9,031,166</u>
Increase (Decrease) in Net Assets	<u>\$ (1,137,818)</u>	<u>\$ 1,044,395</u>

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

Total revenues decreased in 2004. This is primarily due to a decrease in municipal income taxes. The City's largest revenue source is income tax. The City's income tax rate is 1.50 percent on gross income and has not changed since 1981 when the tax was increased by .50 percent by a vote of the residents. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax for Highland Heights. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2004 the income tax received was \$6,134,187. There was a net decrease of \$598,032 compared to the prior year's collections mainly attributable to employer withholding and net profits. The second largest revenue source is property taxes. The full voted tax rate for 2004 was 95.80 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, the City of Highland Heights, the Mayfield City School District, and the Cuyahoga County Library System. During 2004, the property tax collected was approximately \$1.4 million. There was a moderate increase compared to prior year's collection due to a countywide reappraisal.

Total expenses increased in 2004. This is primarily due to an increase in basic utility services and transportation as a result of reclassifying roads (.8 million) and sewers (1.3 million) from these expense accounts to capital assets in 2003. Other expenses remained relatively stable compared to prior year. Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, police and fire communications, and public safety, represented 44 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time, 1 part-time, and 7 auxiliary sworn officers, 4 full-time and 3 part-time dispatchers, and 3 secretaries. The Fire Department is comprised of 1 chief and 17 full-time and 15 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is General Government, \$1,980,463 and 17.94 percent. General Government is composed of the Mayor's Office, City Council, Finance, Law, and General Administration. The City has an annual road program, which entails major and minor resurfacing of the various streets in the City. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission and the Ohio Water Development Authority. In addition, the City has borrowed on the open market by way of general obligation bonds.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal period, the City's governmental funds reported combined ending fund balances of \$4,968,814. Of this amount, \$4,683,794 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior periods(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,934,432, while the total general fund balance was \$3,104,337. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balance represents 38.6 percent of total general fund expenditures, while total general fund balance represents 40.8 percent of the same amount.

GENERAL FUND BUDGETARY HIGHLIGHTS

The most significant budgeted fund is the general fund. Over the course of the year, the City Council revised the City's general fund budget once to prevent budget overruns.

For the general fund, final budgeted basis revenue was \$7,513,630. This was a decrease from the original budgeted revenue of \$8,663,619.

The original appropriation of \$8,670,581 was decreased to \$8,647,737. Even with these adjustments, the actual charges to appropriations (expenditures) were \$616,019 below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the City had \$47,097,922 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below). This amount represents a net decrease (including additions and deductions) of \$1,020,987, or 2.12 percent over prior year.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

Table 3 - Capital Assets at Year-End (Net of Depreciation)

	2004	2003
Land	\$ 2,870,801	\$ 2,612,412
Construction-in-Progress	21,246	684,007
Buildings	3,695,379	3,859,767
Machinery and Equipment	1,098,357	658,495
Furniture and Equipment	24,057	5,160
Vehicles	383,877	416,754
Infrastructure:		
Roads	11,934,073	11,795,949
Water Mains	6,894,778	7,425,549
Storm Sewers	10,683,036	10,990,822
Sanitary Sewers	9,095,413	9,353,177
Culverts	156,366	113,261
Traffic Signals	41,314	0
Bridges	199,225	203,556
Total	<u>\$ 47,097,922</u>	<u>\$ 48,118,909</u>

The City completed five projects in 2004: the Park Lighting Project, the Bishop Road Improvement Project, the ditch enclosure on Miner Road Project, the Service Facility Improvement/Access Road Project, and the Miner Road Culvert Replacement Project. The total cost of these five projects was \$794,687.

The City also did some building improvements in the Community Center, the jail, the Fire Department, and the Council Chambers, for an approximate cost of \$46,349. The tile in the entryway and coat room and the automatic door equipment was replaced in the Community Center. The jail area was repainted. The Fire Department purchased new furniture in the day room, new carpet in the office area, and new mattresses in the dorm room. The sound system and audio recorder were replaced in Council Chambers.

The City's cost for purchases of safety equipment approximated \$91,858. The Police Department purchased three cruisers, a police vest, and other miscellaneous safety equipment. The Fire Department purchased some new fire hose, a defibrillator, and one new vehicle.

The City's cost for purchases for the service department approximated \$86,649. Purchased were one dump truck, one leaf collector and trailer, and one replacement computer.

The City's cost for purchases for the City park project approximated \$26,294. The purchased items include one lot of picnic tables, one 72" lawn mower, one lot of pool chairs, and one laptop for the pool photo ID system.

**CITY OF HIGHLAND HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)**

Debt

The City had \$19,035,602 in outstanding debt at December 31, 2004 compared to \$20,064,527 at December 31, 2003, as shown in Table 4.

Table 4 - Outstanding Debt at Year-End

	Governmental Activities	
	2004	2003
General Obligation Bonds	\$ 9,210,749	\$ 9,686,885
Special Assessment Bonds	5,419,250	5,768,115
Notes	1,600,000	1,600,000
OPWC Loans	2,732,385	2,904,031
Capital Lease	73,218	105,496
Total	\$ 19,035,602	\$ 20,064,527

The City paid \$476,136 on principal for general obligation bonds, \$348,865 on principal for special assessment bonds and OPWC loans, and \$1,600,000 on short term notes. The majority of projects funded through long-term debt deal directly with infrastructure improvements. All OPWC loans are a 0 percent interest rate. New general obligation notes were issued for improvements to the Aberdeen Business Park in the amount of \$1,600,000.

The City's general obligation bond rating continues to carry an AA3 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well below the state-imposed limit.

Other obligations include accrued vacation and sick leave and capital leases. More detailed information about the City's long-term liabilities is presented in Note 14 to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anthony L. Ianiro, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 4,407,437
Materials and Supplies Inventory	47,457
Accrued Interest Receivable	27,133
Accounts Receivable	34,331
Intergovernmental Receivable	440,588
Prepaid Items	103,091
Investments	1,689,431
Taxes Receivable	2,694,046
Special Assessments Receivable	10,356,253
Nondepreciable Capital Assets	2,892,047
Depreciable Capital Assets, Net	<u>44,205,875</u>
Total Assets	<u>66,897,689</u>
 <u>Liabilities</u>	
Accounts Payable	89,167
Accrued Wages	87,362
Contracts Payable	28,909
Intergovernmental Payable	181,557
Pension Payable	184,308
Matured Compensated Absences Payable	81,142
Accrued Interest Payable	85,831
Deferred Revenue	1,392,848
Notes Payable	1,600,000
Long-Term Liabilities:	
Due Within One Year	1,375,442
Due In More Than One Year	<u>17,132,048</u>
Total Liabilities	<u>22,238,614</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	29,662,320
Restricted for:	
Debt Service	11,377,539
Other Purposes	563,879
Unrestricted	<u>3,055,337</u>
Total Net Assets	<u>\$44,659,075</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Activities
Governmental Activities:					
Security of Persons and Property	\$4,893,956	\$ 259,966	\$ 18,328	\$ 0	\$ (4,615,662)
Leisure Time Activities	684,572	255,720	4,000	0	(424,852)
Community Environment	256,551	266,312	0	0	9,761
Basic Utility Services	1,485,029	2,258	0	0	(1,482,771)
Transportation	976,297	221,426	369,977	87,674	(297,220)
General Government	2,011,287	145,668	0	0	(1,865,619)
Interest and Fiscal Charges	<u>764,210</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(764,210)</u>
Total Governmental Activities	<u>11,071,902</u>	<u>1,151,350</u>	<u>392,305</u>	<u>87,674</u>	<u>(9,440,573)</u>
 General Revenues:					
Property Taxes Levied for:					
General Purposes					735,802
Special Revenue					535,128
Debt Service					136,363
Municipal Income Taxes Levied for:					
General Purposes					5,560,724
Debt Service					573,463
Other Taxes					27,466
Grants and Entitlements not					
Restricted to Special Programs					528,111
Investment Earnings					122,901
Miscellaneous					<u>82,797</u>
Total General Revenues					<u>8,302,755</u>
Change in Net Assets					(1,137,818)
Net Assets, Beginning of Year, as Restated (see Note 3)					<u>45,796,893</u>
Net Assets End of Year					<u>\$ 44,659,075</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Special Assessment Bond Retirement	Aberdeen Business Park	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,102,842	\$ 804,149	\$ 130,510	\$ 2,369,936	\$ 4,407,437
Investments	1,689,431	0	0	0	1,689,431
Receivables:					
Taxes	1,914,466	0	0	779,580	2,694,046
Accounts	31,094	0	0	3,237	34,331
Accrued Interest	9,044	0	0	18,089	27,133
Special Assessments	10,280	10,133,930	0	212,043	10,356,253
Intergovernmental	170,442	0	0	270,146	440,588
Inventory	14,629	0	0	32,828	47,457
Prepaid Items	103,091	0	0	0	103,091
Total Assets	<u>\$ 5,045,319</u>	<u>\$10,938,079</u>	<u>\$ 130,510</u>	<u>\$ 3,685,859</u>	<u>\$ 19,799,767</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 64,616	\$ 0	\$ 0	\$ 24,551	\$ 89,167
Contracts Payable	0	0	0	28,909	28,909
Accrued Wages and Benefits	87,281	0	0	81	87,362
Matured Compensated Absences Payable	81,142	0	0	0	81,142
Due to Governments	173,350	0	0	8,207	181,557
Pension Payable	184,155	0	0	153	184,308
Deferred Revenue	1,350,438	10,133,930	0	1,094,140	12,578,508
Notes Payable	0	0	1,600,000	0	1,600,000
Total Liabilities	<u>1,940,982</u>	<u>10,133,930</u>	<u>1,600,000</u>	<u>1,156,041</u>	<u>14,830,953</u>
Fund Balances					
Reserved for Inventory	14,629	0	0	32,828	47,457
Reserved for Prepaid Items	103,091	0	0	0	103,091
Reserved for Encumbrances	52,185	0	28,546	53,741	134,472
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	2,934,432	0	0	0	2,934,432
Special Revenue Funds	0	0	0	1,021,160	1,021,160
Debt Service Funds	0	804,149	0	467,364	1,271,513
Capital Projects Funds	0	0	(1,498,036)	954,725	(543,311)
Total Fund Balances (Deficits)	<u>3,104,337</u>	<u>804,149</u>	<u>(1,469,490)</u>	<u>2,529,818</u>	<u>4,968,814</u>
Total Liabilities and Fund Balances	<u>\$ 5,045,319</u>	<u>\$10,938,079</u>	<u>\$ 130,510</u>	<u>\$ 3,685,859</u>	<u>\$19,799,767</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total Governmental Funds Balances \$ 4,968,814

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 47,097,922

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

Property Taxes	\$ 64,156	
Grants and Entitlements	296,882	
Income Tax	468,369	
Special Assessments	<u>10,356,253</u>	
Total		11,185,660

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

General Obligation Bonds	(9,210,749)	
Special Assessment Bonds	(5,419,250)	
OPWC Loan	(2,732,385)	
Capital Leases	(73,218)	
Compensated Absences	(1,071,888)	
Accrued Interest Payable	<u>(85,831)</u>	
Total		<u>(18,593,321)</u>

Net Assets of Governmental Activities \$44,659,075

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Special Assessment Bond Retirement	Aberdeen Business Park	Other Governmental Funds	Total Governmental Funds
Revenues					
Municipal Income Taxes	\$ 5,485,900	\$ 0	\$ 0	\$ 565,149	\$ 6,051,049
Property Taxes	735,802	0	0	671,491	1,407,293
Intergovernmental Revenue	350,749	0	0	528,317	879,066
Special Assessments	87,674	848,615	0	214,064	1,150,353
Charges for Services	149,504	0	0	254,535	404,039
Fines, Licenses, and Permits	500,293	0	0	2,492	502,785
Interest Income	40,401	0	370	82,500	123,271
Miscellaneous	82,325	0	0	30,667	112,992
Total Revenues	<u>7,432,648</u>	<u>848,615</u>	<u>370</u>	<u>2,349,215</u>	<u>10,630,848</u>
Expenditures					
Security of Persons and Property	4,258,461	0	0	541,912	4,800,373
Leisure Time Activities	130,277	0	0	520,357	650,634
Community Environment	256,016	0	0	3,093	259,109
Basic Utilities Services	856,148	0	0	0	856,148
Transportation	11,051	0	0	556,063	567,114
General Governments	1,944,433	5,025	0	250	1,949,708
Capital Outlay	7,438	0	23,493	180,227	211,158
Debt Service:					
Principal Retirement	0	513,249	0	483,397	996,646
Interest and Fiscal Charges	0	312,131	32,000	457,308	801,439
Total Expenditures	<u>7,463,824</u>	<u>830,405</u>	<u>55,493</u>	<u>2,742,607</u>	<u>11,092,329</u>
Excess of Revenues Over (Under) Expenditures	<u>(31,176)</u>	<u>18,210</u>	<u>(55,123)</u>	<u>(393,392)</u>	<u>(461,481)</u>
Other Financing Sources (Uses)					
Transfers In	50,755	0	32,000	369,735	452,490
Transfers Out	(275,000)	0	0	(177,490)	(452,490)
Total Other Financing Sources (Uses)	<u>(224,245)</u>	<u>0</u>	<u>32,000</u>	<u>192,245</u>	<u>0</u>
Net Change in Fund Balances	(255,421)	18,210	(23,123)	(201,147)	(461,481)
Fund Balances (Deficit) - Beginning of Year, as Restated	3,362,267	785,939	(1,446,367)	2,733,269	5,435,108
Increase (Decrease) in Reserve for Inventory	(2,509)	0	0	(2,304)	(4,813)
Fund Balances (Deficits) - End of Year	<u>\$ 3,104,337</u>	<u>\$ 804,149</u>	<u>\$(1,469,490)</u>	<u>\$ 2,529,818</u>	<u>\$ 4,968,814</u>

See accompanying notes to the basic financial statements.

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (461,481)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (990,163)

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets, net of proceeds received. (30,824)

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

Grants and Entitlements	\$ 42,566	
Income Tax	83,138	
Special Assessments	<u>(819,842)</u>	
Total		(694,138)

Repayment of bond, OPWC payments, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,028,925

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 4,950

Compensated Absences	9,726	
Pension Obligation	<u>(4,813)</u>	
Total		<u>4,913</u>

Change in Net Assets of Governmental Activities \$ (1,137,818)

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
<u>Revenues</u>				
Income Taxes	\$ 6,427,157	\$ 5,579,240	\$ 5,581,608	\$ 2,368
Property Taxes	850,018	735,077	738,191	3,114
Intergovernmental	402,900	349,098	349,895	797
Special Assessments	100,956	87,500	87,674	174
Charges for Services	82,041	70,140	71,248	1,108
Fines, Licenses, and Permits	576,237	500,175	500,428	253
Interest Income	57,025	47,000	49,523	2,523
Miscellaneous	<u>167,285</u>	<u>145,400</u>	<u>145,277</u>	<u>(123)</u>
Total Revenues	<u>8,663,619</u>	<u>7,513,630</u>	<u>7,523,844</u>	<u>10,214</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	4,614,172	4,778,507	4,458,100	320,407
Leisure Time Activities	149,788	128,828	114,171	14,657
Community Environment	266,941	269,499	262,489	7,010
Basic Utility	953,401	988,758	919,686	69,072
General Government	2,206,753	2,186,885	1,987,372	199,513
Capital Outlay	<u>204,526</u>	<u>20,260</u>	<u>14,900</u>	<u>5,360</u>
Total Expenditures	<u>8,395,581</u>	<u>8,372,737</u>	<u>7,756,718</u>	<u>616,019</u>
Excess of Revenues Over (Under) Expenditures	<u>268,038</u>	<u>(859,107)</u>	<u>(232,874)</u>	<u>626,233</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	50,755	50,755	50,755	0
Operating Transfers Out	(275,000)	(275,000)	(275,000)	0
Advances In	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(217,245)</u>	<u>(217,245)</u>	<u>(217,245)</u>	<u>0</u>
Net Change in Fund Balance	50,793	(1,076,352)	(450,119)	626,233
Fund Balance at Beginning of Year	3,164,020	3,164,020	3,164,020	0
Outstanding Encumbrances	<u>81,895</u>	<u>81,895</u>	<u>81,895</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 3,296,708</u>	<u>\$ 2,169,563</u>	<u>\$ 2,795,796</u>	<u>\$ 626,233</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 490,442</u>
<u>Liabilities</u>	
Accounts Payable	\$ 2,089
Deposits Held and Due to Others	<u>488,353</u>
Total Liabilities	<u>\$ 490,442</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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 Highland Heights 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 three organizations which are defined as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 20 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 16) and a joint venture (Note 19).

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, 2004
(CONTINUED)

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 assets 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 assets 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 assets 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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: governmental and fiduciary.

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 liabilities is 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 of Highland Heights and/or the general laws of Ohio.

Special Assessment Bond Retirement Fund – The special assessment bond retirement fund accounts for special assessments levied to pay principal and interest on debt issued to finance the benefitted property owners' share of the cost of various projects.

Aberdeen Business Park Capital Project Fund - The Aberdeen Business Park capital project fund accounts for the acquisition or construction of its capital items in assistance with the Aberdeen Business Park.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust fund. Agency

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

B. Fund Accounting (Continued)

Fiduciary Funds (Continued)

funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

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 all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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 current liabilities 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 a reconciliation 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 revenue, and the presentation of expense versus expenditures.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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

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 7). 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.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes, for which there is an enforceable legal claim as of December 31, 2004 but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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

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

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

E. **Pooled Cash and Cash Equivalents**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash balances of all City funds are pooled and invested. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as Cash and Cash Equivalents. Cash equivalents consist of STAROhio and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004. The allocation of interest earnings from investments to the City's funds is governed by the City Charter. Interest revenue credited to the general fund during 2004 amounted to \$40,401.

During fiscal year 2004, investments were limited to STAROhio, non-negotiable certificates of deposit, repurchase agreements, and U.S. Government Securities.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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, 2004 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

The City's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets 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 fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, water mains, storm sewers, culverts, and bridges. 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

H. **Capital Assets** (Continued)

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:

Description	Governmental Activities Estimated Lives
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 "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net assets.

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.

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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

J. **Compensated Absences** (Continued)

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, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. **Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, and prepaids.

M. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

M. **Net Assets** (Continued)

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

Q. **Budgetary Data** (Continued)

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 2004, there were few significant 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.

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, 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 reservations of fund balances for subsequent year expenditures in the governmental funds.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

Q. **Budgetary Data** (Continued)

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.

NOTE 3: **RESTATEMENT OF PRIOR YEAR FUND EQUITY**

Change in Accounting Principle

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing, multiple-employer pension and other post-employment benefit plan (OPEB). The implementation of GASB Technical Bulletin had an effect on the financial statements of the City as noted below.

	<u>General Fund</u>
Fund Balance at December 31, 2003, as reported	\$ 3,898,346
Correction of Income Tax Revenue	(399,559)
Pension Payable (implementation of GASB Technical Bulletin 2004-2)	(136,520)
Fund Balance at December 31, 2003, as restated	<u>\$ 3,362,267</u>

Fund Equity

During 2003, income tax revenues were overstated. This overstatement had the following effect on fund equity:

Governmental Activities Net Assets, December 31, 2003	\$46,196,452
Capital Assets (Net)	158,406
Governmental Net Assets, December 31, 2003, Restated	<u>\$ 46,354,858</u>

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

Fund Deficit

Fund balance at December 31, 2004 included the following individual fund deficit:

Aberdeen Business Park Capital Project Fund	\$1,469,490
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The deficit in the Aberdeen Business Park capital project fund resulted from the recognition of short-term bond anticipation notes as fund liability as opposed to revenue. The fund deficit will be reversed when the bond is issued. A deficit does not exist under the budgetary basis of accounting. The general provides transfer when cash is required, not when accrual occurs.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented for the general 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. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- e. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

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

Net Change in Fund Balance	<u>General</u>
GAAP Basis	\$ (255,421)
Increase (Decrease) Due to:	
Revenue Accruals	91,196
Expenditure Accruals	(292,894)
Advances In	<u>7,000</u>
Budgetary Basis	<u>\$ (450,119)</u>

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: CASH AND CASH EQUIVALENTS

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;

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **CASH AND CASH EQUIVALENTS** (Continued)

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

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. Deposits

At year-end, the carrying amount of the City's deposits was \$2,915,834, and the bank balance was \$2,984,194. Of the bank balance:

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **CASH AND CASH EQUIVALENTS** (Continued)

A. **Deposits** (Continued)

1. \$298,663 was covered by Federal depository insurance.
2. \$2,685,531 was considered uninsured and uncollateralized, even though securities for collateral were held by the pledging financial institutions' trust department in the financial institution's name and all State statutory requirements for the deposit of money had been followed. Non-compliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

B. **Investments**

GASB Statement No. 3 entitled *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* requires the City's investments to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

STAROhio, the State Treasurer's investment pool and the Victory Federal Money Market are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
State Treasury Asset Reserve Fund (STAROhio) (Non-Categorized)		Non-Categorized	\$ 1,393,313	\$ 1,393,313
Repurchase Agreement	\$ 0	\$ 945,000	945,000	945,000
Federal National Mortgage Association Notes	494,327	0	494,327	494,327
Federal Home Loan Bank Notes	495,104	0	495,104	495,104
Victory Federal Money Market	<u>0</u>	Non-Categorized	<u>343,732</u>	<u>343,732</u>
Total Investments	<u>\$ 989,431</u>	<u>\$ 945,000</u>	<u>\$ 3,671,476</u>	<u>\$ 3,671,476</u>

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **CASH AND CASH EQUIVALENTS** (Continued)

B. **Investments** (Continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/	
	Deposits	Investments
GASB Statement No. 9	\$ 4,897,879	\$ 1,689,431
Part of Pool:		
STAROhio	(1,393,313)	1,393,313
Repurchase agreements	(945,000)	945,000
Victory Federal Money Market	(343,732)	343,732
Certificates of Deposit (greater than 3 months)	700,000	(700,000)
GASB Statement No. 3	\$ 2,915,834	\$ 3,671,476

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based.

These securities must be obligations of, or guaranteed by, the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that security for public deposits and investment be maintained in the name of the City.

The City will continue to monitor compliance with applicable statutes in the future pertaining to public deposits and investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

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 2004 for real and public property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2004 real property taxes are collected in and intended to finance 2005.

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. 2004 public utility property taxes which became a lien at December 31, 2003 are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003 on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2004 was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property - 2004 Tax Valuation	\$ 332,348,450
Public Utility Tangible Property - 2004 Tax Valuation	3,656,600
Tangible Personal Property - 2004 Tax Valuation	<u>31,186,208</u>
Total	<u>\$ 367,191,258</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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the general, police pension, fire pension, parks and recreation, and general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 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**

An income tax of 1.5 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

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 by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

Special assessments expected to be collected in more than one year amount to \$10,356,253 in the special assessment bond retirement fund. At December 31, 2004, the amount of delinquent special assessments was 68,630.

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 reported in the Bond Retirement Fund. Additionally, the City receives estate taxes which are used for the purpose of making long-term capital improvements and the improvements of infrastructure, including the City Hall Complex and Municipal Park. All estate taxes are reported in the Capital Project Capital Improvement Fund.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

E. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Estate Tax	\$ 44,623
Gasoline Tax	104,775
Local Government	119,594
Homestead and Rollback	79,085
Grants	4,000
Utility Property Tax Loss Reimbursement	16,563
Auto Registration	67,337
Permissive Tax	4,611
Total Governmental Activities	\$ 440,588

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

	<u>Transfer From</u>		
<u>Transfer To</u>	<u>Nonmajor</u>		
	<u>Governmental</u>		
	<u>General</u>	<u>Funds</u>	<u>Total</u>
General Fund	\$ 0	\$ 50,755	\$ 50,755
Aberdeen Business Park	0	32,000	32,000
Nonmajor Governmental Funds	275,000	94,735	369,735
Total	\$ 275,000	\$ 177,490	\$ 452,490

The transfer of \$32,000 from the general bond retirement debt service fund to the Aberdeen Business Park fund was made for the payment of interest on bond anticipation notes, a transfer of \$50,000 from the Parks and Recreation Fund to the General Bond Retirement Fund made for the debt of the swimming pool, and the other interfund transfers were made to provide additional resources for current operations.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	Balance 12/31/03	Additions	Disposals	Balance 12/31/04
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land and Land Improvements	\$ 2,612,412	\$ 258,389	\$ 0	\$ 2,870,801
Construction in Progress	684,007	131,926	(794,687)	21,246
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,296,419</u>	<u>390,315</u>	<u>(794,687)</u>	<u>2,892,047</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	6,572,418	18,579	0	6,590,997
Machinery and Equipment	1,864,586	581,408	(31,036)	2,414,958
Furniture and Fixtures	31,457	20,724	0	52,181
Vehicles	1,248,797	120,594	(60,863)	1,308,528
Infrastructure				
Roads	17,838,031	489,788	0	18,327,819
Water Mains	10,999,901	0	0	10,999,901
Sanitary Sewers	12,505,138	0	0	12,505,138
Storm Sewers	15,426,230	0	0	15,426,230
Culverts	183,825	46,510	0	230,335
Bridges	216,549	0	0	216,549
Traffic Signals	0	84,068	0	84,068
Totals at Historical Cost	<u>66,886,932</u>	<u>1,361,671</u>	<u>(91,899)</u>	<u>68,156,704</u>
Less Accumulated Depreciation:				
Buildings	(2,712,651)	(182,967)	0	(2,895,618)
Machinery and Equipment	(1,206,091)	(132,220)	21,710	(1,316,601)
Furniture and Equipment	(26,297)	(1,827)	0	(28,124)
Vehicles	(832,043)	(131,973)	39,365	(924,651)
Infrastructures				
Roads	(6,042,082)	(351,664)	0	(6,393,746)
Water Mains	(3,574,352)	(530,771)	0	(4,105,123)
Sanitary Sewers	(3,151,961)	(257,764)	0	(3,409,725)
Storm Sewers	(4,435,408)	(307,786)	0	(4,743,194)
Culverts	(70,564)	(3,405)	0	(73,969)
Bridges	(12,993)	(4,331)	0	(17,324)
Traffic Signals	0	(42,754)	0	(42,754)
Total Accumulated Depreciation	<u>(22,064,442)</u>	<u>(1,947,462)</u>	<u>61,075</u>	<u>(23,950,829)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>44,822,490</u>	<u>(585,791)</u>	<u>(30,824)</u>	<u>44,205,875</u>
Governmental Activities Capital Assets, Net	<u>\$ 48,118,909</u>	<u>\$ (195,476)</u>	<u>\$ (825,511)</u>	<u>\$ 47,097,922</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 56,175
Security of Persons and Property	198,818
Basic Utilities	941,199
Community Environment	6,244
Leisure Time Activities	83,912
Transportation	661,114
Total Depreciation Expense	<u>\$ 1,947,462</u>

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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 accumulated by each employee, with the exception of firemen, which can accumulate 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: PENSION PLAN

A. Ohio Public Employees Retirement System

All City full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

1. The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan;
2. The Member-Directed Plan (MD) - a benefit contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 11: **PENSION PLAN** (Continued)

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

145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.55 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$279,141, \$277,700, and \$167,098, respectively. The full amount has been contributed for 2003 and 2002. 92.68 percent has been contributed for 2004.

B. **Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability 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. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$281,287 and \$253,297 for the year ended December 31, 2004, \$164,152 and \$164,655 for the year ended December 31, 2003, and \$154,403 and \$157,609 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 73.06 percent and 71.29 percent, respectively, have been contributed for 2004.

CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 12: POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer rate was 13.55 percent of covered payroll; 4 percent was the portion that was used to fund health care for 2004.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2003, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The City's annual contributions for 2004 used to fund post-employment benefits were \$82,403. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. **Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F funds shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post-employment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

**CITY OF HIGHLAND HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

The City's annual contributions for 2004 that were used to fund postemployment benefits were \$111,793 for police and \$81,794 for fire. The OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506.

NOTE 13: **NOTES PAYABLE**

Note activity for the year ended December 31, 2004 consisted of the following:

	<u>Balance</u> 12/31/03	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> 12/31/04
<u>Capital Projects Funds</u>				
3% Bond Anticipation Notes, issued 2003 (Aberdeen Business Park)				
(Renew 2003 issue) \$1,600,000	\$ 1,600,000	\$ 1,600,000	\$ (1,600,000)	\$ 1,600,000
Total	<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>	<u>\$ (1,600,000)</u>	<u>\$ 1,600,000</u>

All the notes are backed by the full faith and credit of the City. In governmental fund financial statements the note liability is reflected in the fund which received the proceeds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2004 are as follows:

	Balance 12/31/03	Additions	Retirements	Balance 12/31/04	Amounts Due in One Year
General Obligation Bonds					
1992 \$1,440,000 Various Purpose improvement bonds, 4.0-6.2%	\$ 675,000	\$ 0	\$ (65,000)	\$ 610,000	\$ 65,000
1997 \$6,495,000 Various Purpose Improvement Bonds, 3.75-5.25%	5,085,000	0	(255,000)	4,830,000	270,000
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	156,885	0	(6,136)	150,749	7,012
2001 \$4,065,000 Various Purpose Improvement Bonds, 3.0-4.8%	3,770,000	0	(150,000)	3,620,000	160,000
Total General Obligation Bonds	<u>9,686,885</u>	<u>0</u>	<u>(476,136)</u>	<u>9,210,749</u>	<u>502,012</u>
Special Assessment (a)					
1999 \$837,080 Alpha Improvement Assessment 5.2-6.5%	738,115	0	(28,865)	709,250	32,988
1999 \$1,280,000 Refunding of Special Assessment (Whiteford and Alpha), 5.2-6.5%	795,000	0	(140,000)	655,000	150,000
1999 \$4,460,000 Street Improvement (Aberdeen Blvd.) Bonds, 4.1-5.7%	4,030,000	0	(155,000)	3,875,000	165,000
1990 \$380,000 Street Improvement (Bishop Rd.) Bonds, 7.357%	205,000	0	(25,000)	180,000	25,000
Total Special Assessment Bonds	<u>5,768,115</u>	<u>0</u>	<u>(348,865)</u>	<u>5,419,250</u>	<u>372,988</u>
Ohio Public Works Commission					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	1,353,517	0	(82,031)	1,271,486	82,032
1998 \$960,310 Miner and Bishop Roads Sanitary Sewer, 0%	816,264	0	(48,016)	768,248	48,015
1998 \$145,238 Millridge Water Main Replacement, 0%	116,190	0	(7,262)	108,928	7,262
1999 \$686,733 Sanitary Sewers Selected Locations, 0%	618,060	0	(34,337)	583,723	34,336
Total Ohio Public Works Commission	<u>2,904,031</u>	<u>0</u>	<u>(171,646)</u>	<u>2,732,385</u>	<u>171,645</u>
Capital Lease					
2001 Vacuum Street Sweeper and Leaf Collector	94,020	0	(29,996)	64,024	31,321
2002 Canon Copier	11,476	0	(2,282)	9,194	2,375
Total Capital Lease	<u>105,496</u>	<u>0</u>	<u>(32,278)</u>	<u>73,218</u>	<u>33,696</u>
Compensated Absences	<u>1,081,614</u>	<u>71,416</u>	<u>(81,142)</u>	<u>1,071,888</u>	<u>295,101</u>
Total Governmental Long-Term Obligations	<u>\$ 19,546,141</u>	<u>\$ 71,416</u>	<u>\$ (1,110,067)</u>	<u>\$18,507,490</u>	<u>\$ 1,375,442</u>

(a) Includes only the portion of the bonds expected to be paid from special assessments. The remaining portion (City's share) of the bonds is to be paid from general City revenues and is included under the "General Obligation Bonds" caption.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

The 1992 bonds were issued to improve the municipal sewerage system by constructing storm sewers and culverts. The 1997 bonds were a consolidated issue for the construction and improvement of streets, sewer systems, water mains and storm water retention facilities, and the acquisition of a pumper truck. The 1999 issue was for the City's portion of the improvement of Alpha Street. The 2001 series were issued for the improvement of streets, acquiring and installing communications equipment for the Dispatch Center, and installing a roof on the City's municipal complex.

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.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment bond retirement fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The Ohio Public Works Commission (OPWC) loans will be paid by revenues transferred from the general fund. See Note 15 for further details on capital leases. Compensated absences will be paid from the respective fund from which the employee's salary is paid.

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, the City at December 31, 2004 had the capacity to issue \$26,104,788 of additional general obligation debt.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2004 from the general resources of the City are as follows:

Year	General Obligation Bonds		Special Assessments		OPWC Loan	Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2005	\$ 502,012	\$ 437,264	\$ 372,988	\$ 293,871	\$ 171,645	\$ 33,696	\$ 2,480
2006	522,012	415,666	382,988	274,207	171,645	35,176	1,000
2007	547,888	392,601	412,112	253,864	171,645	2,573	127
2008	527,888	368,182	442,112	231,716	171,645	1,773	76
2009	557,888	344,375	267,112	207,882	171,645	0	0
2010-2014	3,009,081	1,309,040	1,410,919	820,301	858,227	0	0
2015-2019	2,658,980	565,321	1,781,019	406,197	858,228	0	0
2020-2024	885,000	98,849	350,000	19,950	157,705	0	0
2025-2029	0	0	0	0	0	0	0
Totals	<u>\$ 9,210,749</u>	<u>\$ 3,931,298</u>	<u>\$ 5,419,250</u>	<u>\$ 2,507,988</u>	<u>\$ 2,732,385</u>	<u>\$ 73,218</u>	<u>\$ 3,683</u>

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 15: CAPITAL LEASES

The City entered into an agreement with Lake Business Products, Inc. in June 2003 to lease one Canon digital copier in the amount of \$12,217. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date as capital assets and long-term debt. The City entered into an agreement with Bank One Leasing Corporation in December 2001 to lease one vacuum street sweeper in the amount of \$150,259.

The cost and accumulated depreciation of the assets acquired through capital leases are as follows:

<u>Governmental Activities</u>	<u>Street Sweeper</u>	<u>Canon Copier</u>	<u>Total</u>
Asset:			
Equipment	\$ 150,259	\$ 12,217	\$ 162,476
Less: Accumulated Depreciation	<u>(18,103)</u>	<u>(3,359)</u>	<u>(21,462)</u>
Net Value	<u>\$ 132,156</u>	<u>\$ 8,858</u>	<u>\$ 141,014</u>

The future minimum lease obligation and the net present value of these capital leases as of December 31, 2004 are as follows:

Future Minimum Lease Obligation	\$ 66,951	\$ 9,950	\$ 76,901
Less: Interest	<u>(2,927)</u>	<u>(756)</u>	<u>(3,683)</u>
Net Present Value	<u>\$ 64,024</u>	<u>\$ 9,194</u>	<u>\$ 73,218</u>

NOTE 16: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

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

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 16: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION** (Continued)

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. 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 2004, the City of Highland Heights paid \$78,356 in premiums from the general fund, which represents 5.19 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio, 44146.

NOTE 17: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among 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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

The medical and prescription benefits are provided through Medical Mutual of Ohio and dental benefits are provided through FORTIS. Payments are made from the general fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits is \$376.89 for single coverage and \$929.97 for family coverage. The monthly premium for dental benefits is \$31.69 for single coverage and \$95.36 for family coverage.

NOTE 18: **CONTINGENT LIABILITIES**

The City is a defendant in a number of lawsuits. 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 19: **JOINT VENTURE**

Tri-City Consortium on Aging Council of Governments

The Tri-City Consortium on Aging (Consortium) is a joint venture among the cities of Highland Heights, Lyndhurst, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member cities and Federal grants. The governing board of the Consortium is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, and South Euclid, with the advice of a nine-member commission. Continued existence of the Consortium is dependent on the City; however, the City has no explicit and measurable equity interest in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2004, the City contributed \$65,878, which represents 17.2 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

NOTE 20: **JOINTLY GOVERNED ORGANIZATION**

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.

CITY OF HIGHLAND HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

Eastern Suburban Regional Council of Governments (Continued)

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. In 2004, the City contributed \$12,500, which represents 16.7 percent of the total contributions.

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 2004. Financial information can be obtained by contacting NOPEC at 1615 Clarke Avenue, Cleveland, Ohio 44109.

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.

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

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Ohio Society of Certified Public Accountants

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

Honorable Mayor, City Manager, and
Members of Council
City of Highland Heights, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Ohio, as of and for the years ended December 31, 2005 and 2004, which collectively comprise the City of Highland Heights, Ohio's basic financial statements and have issued our report thereon dated June 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Highland Heights, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highland Heights, Ohio's financial statements are free of 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*.

We noted a certain matters that we have reported to the management of the City of Highland Heights, Ohio, in a separate letter dated June 8, 2006.

This report is intended for the information and use of the audit committee, management, and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

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

June 8, 2006

**CITY OF HIGHLAND HEIGHTS, OHIO
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

The prior audit report, as of December 31, 2003, included no citations. Management letter recommendations have been corrected and procedures instituted to prevent occurrences in this audit period.



**Auditor of State
Betty Montgomery**

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CITY OF HIGHLAND HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 26, 2006**