

CITY OF UNIVERSITY HEIGHTS, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2008 through December 31, 2008. 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.

Findings for Recovery

PAYROLL ADVANCES

As the Finance Director, Arman Ochoa was responsible for the payroll preparation. During the 2008 fiscal audit, it was noted by James Zupka CPA, that the payroll earnings for Mr. Ochoa were not consistent with salary resolutions. Further testing was performed dating back to fiscal year 2005. It was noted for the extended pay periods beginning in 2005 and extending through 2008, Mr. Ochoa received payroll advances in the amount of \$69,795. Of this amount, \$31,955 has not been paid back. Beryl Rothschild, Mayor, authorized payroll advances for Mr. Ochoa in the amount of \$8,057.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Arman Ochoa, in the amount of \$31,955, and against his bonding companies Ohio Casualty Insurance Company in the amount of \$12,790, and Western Surety in the amount of \$19,165, jointly and severally, and in favor of the City of University Heights.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Atty Gen. No. 80-074, Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. No. 80-074.

Accordingly, Beryl Rothschild, Mayor, will be liable in the amount of \$8,057 to the extent that recovery is not obtained from Arman Ochoa, Finance Director, and in favor of the City of University Heights.

VACATION LEAVE PAYOUT

As the Finance Director, Arman Ochoa was responsible for the payroll preparation. On December 18, 2008, Arman Ochoa received a vacation leave payout in the amount of \$5,985. However, he was only authorized to receive \$4,489, resulting in an overpayment of \$1,496.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Arman Ochoa, in the amount of \$1,496, and against his bonding company Western Surety in the amount of \$1,496, jointly and severally, and in favor of the City of University Heights.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 25, 2010

CITY OF UNIVERSITY HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

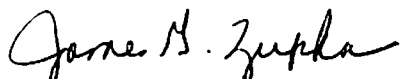
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of University Heights, Ohio'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 University Heights, Ohio, as of December 31, 2008, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Urban Redevelopment 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 November 23, 2009 on our consideration of the City of University 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is 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

November 23, 2009

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
Unaudited**

The Management's Discussion and Analysis of the City of University Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2008 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$8.0 million. Of this amount, \$5.0 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets increased by \$0.9 million from prior year. Assets increased by \$0.3 million, whereas, liabilities decreased by \$0.6 million.
- The unreserved fund balance for the general fund was \$0.5 million, an increase of \$0.4 million from prior year. The general fund revenues increased by \$.3 million or 2.4 percent mainly due to higher income tax collections. The general fund expenditures increased by \$0.6 million or 5.8 percent from prior year. However, transfers from the general fund to the other funds decreased by \$0.6 million or 40.2 percent.

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 events giving rise to the changes occur, 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 UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
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, public works, 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 those 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 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 to 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 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.

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 increased from a year ago - increasing from \$7.1 million to \$8.0 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental activities.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
Unaudited**

Table 1-Net Assets (in Millions)

	2008	2007
Assets		
Current and Other Assets	\$ 12.3	\$ 11.8
Capital Assets, Net	7.3	7.5
Total Assets	<u>\$ 19.6</u>	<u>\$ 19.3</u>
Liabilities		
Current and Other Liabilities	\$ 5.1	\$ 5.8
Long-Term Liabilities:		
Due Within One Year	4.1	3.7
Due in More Than One Year	2.4	2.7
Total Liabilities	<u>\$ 11.6</u>	<u>\$ 12.2</u>
Net Assets		
Invested in Capital Assets Net of Debt	2.5	2.4
Restricted:		
Capital Projects	0.1	0.1
Debt Projects	0.2	0.2
Special Revenue	0.2	0.0
Unrestricted	5.0	4.4
Total Net Assets	<u>\$ 8.0</u>	<u>\$ 7.1</u>

The City's net assets increased \$0.9 million or 12.68 percent.

Table 2-Changes in Net Assets (in Millions)

	2008	2007
Revenues		
Program Revenues:		
Charges for Services	\$ 0.92	\$ 1.70
Operating Grants and Contributions	.03	0.20
Capital Grants and Contributions	2.85	4.00
General Revenues:		
Property Taxes	3.27	3.20
Income Taxes	8.17	8.30
Payment in Lieu of Taxes	4.03	0.00
Grant and Entitlements	1.91	1.80
Other	0.14	0.20
Total Revenues	<u>21.32</u>	<u>19.40</u>
Program Expenses		
General Government	\$ 1.77	\$ 1.60
Security of Persons and Property	8.36	7.80
Transportation	1.69	2.00
Community Environment	5.24	4.60
Public Works	2.64	1.60
Leisure Time Activities	0.40	0.40
Interest and Fiscal Charges	0.25	0.30
Public Health Services	0.05	0.10
Total Program Expenses	<u>20.40</u>	<u>18.40</u>
Special Item (Cleveland Water Agreement)	0.0	(1.20)
Increase (Decrease) in Net Assets	<u>\$ 0.92</u>	<u>\$ (0.20)</u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
Unaudited**

Total revenues increased \$1.9 million or 9.9 percent mainly due to the receipt of funds from the City of Cleveland Water Department for two projects to repair waterlines at University Parkway, Silsby Road, Charney Road, and Bushnell Road estimated at \$1.8 million. The City's largest revenue source is income tax. The City's income tax rate is 2.5 percent on gross income. There is a credit of 1.0 percent for those residents who work in another municipality/subdivision where income tax is withheld. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2008, the income tax revenue was approximately \$8.2 million which was a decrease of \$.13 million or 1.6 percent from prior year. Another major revenue source is property taxes. The full voted rate for 2008 was 175.8 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 the City, Cuyahoga County, Cleveland-Heights-University Heights City School District, and Cleveland Heights-University Heights Public Library. During 2008, the property tax revenue was approximately \$3.3 million, up \$0.07 million or 2.2 percent from prior year. The increase was based on assessed values of all properties within the City of University Heights increasing from \$285 million to \$297 million. The City received \$4.0 million in payment in lieu of taxes from the University Square Tax Increment Financing Project. This was the first year in which revenue was generated from the project.

Total expenses increased \$2.0 million or 10.9 percent mainly due to the Cleveland Water Department funding two projects to repair waterlines at University Parkway, Silsby Road, Charney Road, and Bushnell Road estimated at \$1.8 million. Expenses are categorized by functions. The largest program, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety was approximately 41.0 percent of the governmental expenses. The police department is made up of 1 chief, 1 deputy chief; 26 full-time sworn officers, 3 full-time dispatchers, and 2 secretaries. The fire department is composed of 1 chief; 1 executive captain; and 26 full-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 community environment which is made up of the building department, community services, and urban redevelopment tax increment financing and was approximately 25.7 percent of the governmental expenses. The City is a labor intensive industry and the expenses of the governmental activities are mainly salaries, wages, and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission and the Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until paid down. In 2008, the City had expended \$0.3 million in major and minor resurfacing of roads.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
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 resource. 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 year, the City's governmental funds reported combined ending fund balances of \$2.8 million. Of this amount, \$2.6 million constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various 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 \$0.5 million, while the total general fund balance was \$0.6 million. 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. The unreserved general fund balance represents 4.50 percent of total general fund expenditures. The general fund balance increased by \$.37 million during the current fiscal year as opposed to an increase of \$0.36 million in 2007. Key factors for this are as follows:

- The general fund revenues increased by \$0.3 million or 2.4 percent from prior year.
- The general fund expenditures in total increased \$0.6 million or 5.8 percent from prior year. However, transfers to other funds decreased \$0.6 million or 40.2 percent, which brought the net change in fund balance to \$0.37 million.

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, original budgeted basis revenue was \$0.3 million below the revised budget estimate of \$13.0 million.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
Unaudited**

The original appropriation of \$12.1 million was increased to \$12.6 million. With these adjustments, the actual charges to appropriations (expenditures) were \$0.1 million below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the City had \$7.3 million 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 \$0.2 million, or 2.7 percent over last year.

Table 3-Capital Assets at Year-end (Net of Depreciation, in Millions)

	<u>2008</u>	<u>2007</u>
Land	\$ 0.2	\$ 0.2
Buildings and Improvements	0.7	0.7
Equipment	0.3	0.5
Vehicles	1.0	0.9
Infrastructure	4.0	4.2
Construction in Progress	<u>1.1</u>	<u>1.0</u>
Total Capital Assets	<u>\$ 7.3</u>	<u>\$ 7.5</u>

The City purchased equipment and vehicles for the various departments approximating \$0.3 million. The City purchased two (2) police vehicles for the police department; one (1) fire vehicle for the fire department; one (1) van for the sewer department; one (1) loader/backhoe for the service department; one (1) snow plow truck for the service department; and various other equipment. For infrastructure, the City performed Phase II of the Meadowbrook Blvd. Rehab project for sewers and paving. The City has expended \$0.1 million in costs for this project, total project costs are \$0.7 million. Completion is estimated to be in 2009.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
Unaudited**

Debt

At year-end, the City had \$5.1 million in outstanding debt versus \$5.3 million last year- a decrease of 3.8 percent - as shown in Table 4.

Table 4-Outstanding Debt at Year-end (in Millions)

	Governmental Activities	
	2008	2007
General obligation bonds (backed by the City)	\$ 0.7	\$ 0.8
General obligation notes (backed by the City)	3.0	2.8
Short-Term General obligation notes (backed by the City)	0.0	0.4
OWDA loans	0.1	0.1
OPWC loans	0.5	0.5
Capital Leases	0.5	0.4
Accrued Police Pension	0.3	0.3
Totals	<u>\$ 5.1</u>	<u>\$ 5.3</u>

The City paid \$0.1 million on principal for general obligation bonds on the Purvis Park Pool. General obligations notes were issued mainly for street programs in the amount of \$2.6 million, and motorized equipment in the amount of \$0.4 million.

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

Other obligations include police pension liability, accrued vacation and sick leave, OPWC loan, OWDA loans, and capital leases. More detailed information about the City's long-term liabilities is presented in Note 14 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged activities. One main factor was the state of the economy. Therefore in preparing estimates for revenues, the City did not anticipate any increase in the revenues and thus, the general fund 2009 budget revenue is the same as the final 2008 budget. The City initiated a number of cuts to help maintain the budget. Major cuts were made to limit the amount of capital expenditures for each department, and cut the overtime budget in the fire department by lowering the minimum staffing requirements from 7 to 6 during a shift.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
Unaudited**

The City has added no major new programs or initiatives to the 2009 budget. With more cuts anticipated from the State of Ohio, the City's budget could be in jeopardy. If these estimates are realized, the City's budgetary general fund balance is expected to increase modestly by the close of 2009. More importantly, however, this will have been accomplished without selling capital assets or restructuring long-term debt to alleviate cash flow pressures, both actions needed in the current years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Tony Ianiro, Interim Director of Finance, at 2300 Warrensville Center Road, University Heights, Ohio 44118.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,071,877
Materials and Supplies Inventory	120,369
Accounts Receivable	33,181
Project Receivable	345,000
Intergovernmental Receivable	831,016
Prepaid Items	48,219
Taxes Receivable	6,753,660
Special Assessments Receivable	1,088,115
Nondepreciable Capital Assets	1,308,125
Depreciable Capital Assets, Net	<u>5,988,560</u>
Total Assets	<u>19,588,122</u>
<u>Liabilities</u>	
Accounts Payable	351,522
Accrued Wages and Benefits	372,907
Contracts Payable	6,569
Intergovernmental Payable	804,846
Accrued Interest Payable	54,698
Retainage Payable	27,533
Deferred Revenue	3,470,159
Long-Term Liabilities:	
Due within One Year	4,102,208
Due in More Than One Year	<u>2,362,421</u>
Total Liabilities	<u>11,552,863</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	2,527,724
Restricted for:	
Debt Service	241,884
Capital Projects	72,163
Special Revenue	225,289
Unrestricted	<u>4,968,199</u>
Total Net Assets	<u>\$ 8,035,259</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:						
Security of Persons and Property	\$8,362,494	\$ 365,508	\$ 21,601	\$ 0	\$ (7,975,385)	
Public Health Services	50,926	0	0	0	(50,926)	
Leisure Time Activities	397,991	78,408	0	0	(319,583)	
Community Environment	5,238,704	273,147	0	0	(4,965,557)	
Public Works	2,641,307	82,140	0	2,500,828	(58,339)	
Transportation	1,685,186	0	7,968	347,952	(1,329,266)	
General Government	1,774,913	121,415	0	0	(1,653,498)	
Interest and Fiscal Charges	245,486	0	0	0	(245,486)	
Total Governmental Activities	\$20,397,007	\$ 920,618	\$ 29,569	\$ 2,848,780	(16,598,040)	
General Revenues:						
Property Taxes Levied for:						
General Purposes					2,610,388	
Special Revenue					146,652	
Debt Service					512,202	
Payments in Lieu of Taxes					4,031,788	
Income Taxes Levied for:						
General Purposes					8,174,969	
Grants and Entitlements not						
Restricted to Special Programs					1,908,242	
Investment Earnings					48,726	
Miscellaneous					89,315	
Total General Revenues					17,522,282	
Change in Net Assets					924,242	
Net Assets, Beginning of Year					7,111,017	
Net Assets End of Year					\$ 8,035,259	

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 302,967	\$ 1,996,927	\$ 37,066	\$ 734,917	\$ 3,071,877
Receivables:					
Taxes	6,067,651	0	533,561	152,448	6,753,660
Accounts	33,181	0	0	0	33,181
Special Assessments	19,351	0	0	1,068,764	1,088,115
Project Receivable	345,000	0	0	0	345,000
Intergovernmental Receivable	610,868	0	37,853	182,295	831,016
Due from Other Funds	46,000	0	0	0	46,000
Inventory	60,295	0	0	60,074	120,369
Prepaid Items	48,219	0	0	0	48,219
Total Assets	<u>\$7,533,532</u>	<u>\$ 1,996,927</u>	<u>\$ 608,480</u>	<u>\$ 2,198,498</u>	<u>\$12,337,437</u>
Liabilities					
Accounts Payable	\$ 231,316	\$ 0	\$ 0	\$ 120,206	\$ 351,522
Contracts Payable	0	0	0	6,569	6,569
Retainage Payable	600	0	0	26,933	27,533
Accrued Wages and Benefits	353,258	0	0	19,649	372,907
Due to Other Funds	0	0	0	46,000	46,000
Due to Governments	275,014	0	0	529,832	804,846
Deferred Revenue	6,034,886	0	571,414	1,339,820	7,946,120
Total Liabilities	<u>6,895,074</u>	<u>0</u>	<u>571,414</u>	<u>2,089,009</u>	<u>9,555,497</u>
Fund Balances					
Reserved for Prepaid Items	48,219	0	0	0	48,219
Reserved for Inventory	60,295	0	0	60,074	120,369
Unreserved:					
Undesignated (Deficits) Reported in:					
General Fund	529,944	0	0	0	529,944
Special Revenue Funds	0	1,996,927	0	(115,660)	1,881,267
Debt Service Funds	0	0	37,066	92,912	129,978
Capital Projects Funds	0	0	0	72,163	72,163
Total Fund Balances	<u>638,458</u>	<u>1,996,927</u>	<u>37,066</u>	<u>109,489</u>	<u>2,781,940</u>
Total Liabilities and Fund Balances	<u>\$ 7,533,532</u>	<u>\$ 1,996,927</u>	<u>\$ 608,480</u>	<u>\$ 2,198,498</u>	<u>\$12,337,437</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Total Governmental Funds Balance \$ 2,781,940

*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. 7,296,685

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

Property Taxes	\$ 227,868	
Grants and Entitlements	622,866	
Income Tax	2,537,112	
Special Assessments	<u>1,088,115</u>	
Total		4,475,961

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	(735,000)	
Bond Anticipation Notes	(3,014,000)	
OWDA Loan	(77,494)	
OPWC Loans	(481,151)	
Accrued Police Pension	(284,666)	
Capital Leases	(461,316)	
Compensated Absences	(1,411,002)	
Accrued Interest Payable	<u>(54,698)</u>	
Total		<u>(6,519,327)</u>

Net Assets of Governmental Activities \$ 8,035,259

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local Taxes - Income Tax	\$ 8,080,627	\$ 0	\$ 0	\$ 0	\$ 8,080,627
Local Taxes - Property Tax	2,590,278	0	508,102	145,480	3,243,860
Payments in Lieu of Taxes	0	4,031,788	0	0	4,031,788
Intergovernmental Revenue	1,378,181	0	75,706	2,736,133	4,190,020
Special Assessments	19,118	0	0	662,269	681,387
Charges for Services	387,208	0	0	0	387,208
Fines, Licenses, and Permits	420,590	0	0	1,000	421,590
Interest Income	46,870	0	0	1,856	48,726
Miscellaneous	89,653	0	0	0	89,653
Total Revenues	<u>13,012,525</u>	<u>4,031,788</u>	<u>583,808</u>	<u>3,546,738</u>	<u>21,174,859</u>
Expenditures					
Security of Persons and Property	7,239,223	0	0	1,030,675	8,269,898
Public Health Services	50,926	0	0	0	50,926
Leisure Time Activities	395,212	0	0	0	395,212
Community Environment	777,202	4,347,894	0	102,998	5,228,094
Public Works	1,037,801	0	0	1,337,729	2,375,530
Transportation	439,638	0	0	930,439	1,370,077
General Government	1,751,302	0	0	0	1,751,302
Capital Outlay	0	0	0	569,666	569,666
Debt Service:					
Principal Retirement	53,140	0	2,915,000	106,338	3,074,478
Interest and Fiscal Charges	30,479	0	179,742	33,116	243,337
Total Expenditures	<u>11,774,923</u>	<u>4,347,894</u>	<u>3,094,742</u>	<u>4,110,961</u>	<u>23,328,520</u>
Excess of Revenues Over (Under) Expenditures	<u>1,237,602</u>	<u>(316,106)</u>	<u>(2,510,934)</u>	<u>(564,223)</u>	<u>(2,153,661)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	6,091	0	0	0	6,091
Proceeds from Sale of Notes	0	0	0	3,014,000	3,014,000
Capital Lease	0	0	0	112,430	112,430
Transfers In	0	0	2,548,000	876,727	3,424,727
Transfers Out	(876,727)	0	0	(2,548,000)	(3,424,727)
Total Other Financing Sources (Uses)	<u>(870,636)</u>	<u>0</u>	<u>2,548,000</u>	<u>1,455,157</u>	<u>3,132,521</u>
Net Change in Fund Balances	366,966	(316,106)	37,066	890,934	978,860
Fund Balances (Deficits)-Beginning of Year	278,376	2,313,033	0	(816,420)	1,774,989
Increase in Reserve for Inventory	(6,884)	0	0	34,975	28,091
Fund Balances -End of Year	<u>\$ 638,458</u>	<u>\$ 1,996,927</u>	<u>\$ 37,066</u>	<u>\$ 109,489</u>	<u>\$ 2,781,940</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ 978,860

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. (155,604)

The net effect of transactions involving capital asset sales and trade-ins. (9,224)

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

Grants and Entitlements	\$ (46,804)	
Income Tax	94,342	
Special Assessments	75,808	
Property Tax	<u>25,382</u>	
Total		148,728

Proceeds from debt issues are in other financing sources in the funds, but the proceeds increase long-term liabilities in the statement of net assets. (3,126,430)

Repayment of bond, loan, note, pension and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,074,478

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. (4,487)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(10,170)	
Change in Inventory	<u>28,091</u>	
Total		<u>17,921</u>

Change in Net Assets of Governmental Activities \$ 924,242

CITY OF UNIVERSITY 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, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Property Taxes	\$ 2,733,256	\$ 2,733,256	\$ 2,590,278	\$ (142,978)
Income Taxes	7,676,850	7,976,850	8,117,269	140,419
Intergovernmental	1,225,664	1,225,664	1,397,111	171,447
Licenses and Permits	260,610	260,610	262,373	1,763
Fines and Forfeitures	216,300	216,300	210,211	(6,089)
Special Assessments	22,000	22,000	19,118	(2,882)
Charges for Services	417,375	417,375	405,365	(12,010)
Interest Earnings	25,000	25,000	44,532	19,532
Miscellaneous	91,850	91,850	141,477	49,627
Total Revenues	<u>12,668,905</u>	<u>12,968,905</u>	<u>13,187,734</u>	<u>218,829</u>
Expenditures				
Current:				
General Government	1,528,691	1,683,691	1,794,957	(111,266)
Security of Persons and Property	6,889,225	7,213,125	7,103,921	109,204
Public Works	1,140,769	1,120,769	1,105,174	15,595
Transportation	389,575	479,575	442,674	36,901
Public Health Services	50,926	50,926	50,926	0
Community Environment	772,436	799,936	787,505	12,431
Leisure Time Activities	414,481	394,481	404,813	(10,332)
Total Expenditures	<u>11,186,103</u>	<u>11,742,503</u>	<u>11,689,970</u>	<u>52,533</u>
Excess of Revenues Over Expenditures	<u>1,482,802</u>	<u>1,226,402</u>	<u>1,497,764</u>	<u>271,362</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	10,000	10,000	6,091	(3,909)
Transfers Out	(902,260)	(887,630)	(876,727)	10,903
Total Other Financing Sources (Uses)	<u>(892,260)</u>	<u>(877,630)</u>	<u>(870,636)</u>	<u>6,994</u>
Net Change in Fund Balance	590,542	348,772	627,128	278,356
Fund Balance (Deficit)-Beginning of Year	(344,658)	(344,658)	(344,658)	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance -End of Year	<u>\$ 245,884</u>	<u>\$ 4,114</u>	<u>\$ 282,470</u>	<u>\$ 278,356</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET (NON-GAAP BASIS) AND ACTUAL -
URBAN REDEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
<u>Revenues</u>				
Payments in Lieu of Taxes	<u>\$ 4,020,000</u>	<u>\$ 4,020,000</u>	<u>\$ 4,031,788</u>	<u>\$ 11,788</u>
Total Revenues	<u>4,020,000</u>	<u>4,020,000</u>	<u>4,031,788</u>	<u>11,788</u>
<u>Expenditures</u>				
Community Environment	<u>4,014,113</u>	<u>4,347,895</u>	<u>4,347,894</u>	<u>1</u>
Total Expenditures	<u>4,014,113</u>	<u>4,347,895</u>	<u>4,347,894</u>	<u>1</u>
Net Change in Fund Balance	5,887	(327,895)	(316,106)	11,789
Fund Balance-Beginning of Year	<u>2,313,033</u>	<u>2,313,033</u>	<u>2,313,033</u>	<u>0</u>
Fund Balance-End of Year	<u>\$ 2,318,920</u>	<u>\$ 1,985,138</u>	<u>\$ 1,996,927</u>	<u>\$ 11,789</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2008**

Assets

Equity in Pooled Cash and Cash Equivalents \$ 285,946

Total Assets \$ 285,946

Liabilities

Deposits Held and Due to Others \$ 285,946

Total Liabilities \$ 285,946

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 1: REPORTING ENTITY

The City of University Heights, Ohio (the “City”) is a municipal corporation governed by an elected mayor and council. The accompanying financial statements present the City and do not include any component units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. 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 therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contribution that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

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

Fund Financial Statements

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

B. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City has two categories of funds: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The differences 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 accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose, provided it is expended or transferred in accordance with the charter of the City and/or the general laws of Ohio.

Urban Redevelopment Special Revenue Fund - The urban redevelopment tax increment equivalent special revenue fund is used to collect service payments made in lieu of taxes and distributed to the Cleveland-Cuyahoga County Port Authority and Cleveland Heights-University Heights School District.

General Bond Retirement Debt Service Fund - The general bond retirement debt service fund accounts for the accumulation of resources to pay principal and interest on general obligation debt.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds (Continued)

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, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary funds are agency funds which consist primarily of construction deposits.

C. **Measurement Focus**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net 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 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.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

C. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. The City has no proprietary funds.

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

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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the 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 in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

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

Revenues - Exchange and Non-exchange Transactions (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is 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 specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes, interest, grants, fees, 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, 2008, but which were levied to finance year 2009 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.

Expenses/Expenditures

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

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

Expenses/Expenditures (Continued)

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. **Cash and Investments**

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

During 2008, the portfolio was limited to non-participating investment contracts and the State Treasury Asset Reserve of Ohio (STAROhio). Non-participating investment contracts such as repurchase agreements are reported at fair value.

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, 2008.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation is recognized within the general fund to the extent its cash and investment balances exceeds the cumulative value of those investments.

The City's policy is to hold investments until maturity, or until market values equal or exceed cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$46,870, which includes \$42,295 from other City funds.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

E. **Cash and Investments** (Continued)

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. **Inventory**

Inventory is stated at the lower of cost (first-in, first-out) or market. Inventories of governmental funds are recorded as expenditures when purchased (purchase method).

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

H. **Capital Assets**

General capital assets are long-lived assets of the City as a whole. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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 five hundred dollars. The City's infrastructure consists of pavement, storm sewers, water lines, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

H. **Capital Assets** (Continued)

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Buildings and Improvements	40 years
Equipment	5-7 years
Vehicles	5-7 years
Infrastructure	20-99 years

I. **Interfund Balances**

On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “Advances To/Advances From Other Funds”. Receivables and payables resulting from negative cash fund balances are classified as “Due to/Due From Other Funds”. These amounts are eliminated in the governmental activities column of the statement of net assets.

J. **Compensated Absences**

In conformity with GASB Statement No. 16, the City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2008.

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

For governmental funds, compensated absences are recognized as liability and expenditure to the extent payment comes due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated leave are paid.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

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

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. As a result, prepaids and inventories are recorded as a reservation of fund balance.

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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

N. **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures 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 in 2008.

P. **Estimates**

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2008, the City implemented GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*” and GASB Statement No. 50 “*Pension Disclosures*”.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

The implementation of GASB Statements No. 49 and No. 50 did not affect the presentation of the financial statements of the City.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 4: COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

Fund balances at December 31, 2008, included the following individual fund deficits:

Special Revenue Funds:

Street Maintenance Fund	\$	111,270
Tree Improvement		24,324
Police Pension		227,585
Fire Pension		282,747
CDBG		19,959

These fund deficits result from the recognition of expenditures on the modified accrual basis of accounting that are greater than expenditures recognized on the budgetary basis. These funds incurred expenditures that will be reimbursed from grant revenue or transfer of funds from the general fund.

B. Expenditures Exceeding Appropriation

Ohio Revised Code Section 5705.41(b) prohibits a city from expending monies unless it has been appropriated. The following line items in the general fund and the sewer maintenance "A" fund had expenditures that exceeded appropriations as of December 31, 2008.

<u>General Fund (101)</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Appropriations</u>	<u>Expenditures</u>	
Leisure Time Activities:			
Personnel and Fringe Benefits	\$ 260,241	\$ 267,897	\$ (7,656)
Operations	134,240	136,916	(2,676)
General Government:			
Personnel and Fringe Benefits	822,306	834,803	(12,497)
Operations	861,385	960,154	(98,769)
 <u>Sewer Maintenance "A" Fund (208)</u>			
General Government:			
Personnel and Fringe Benefits	146,020	149,601	(3,581)

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 5: **BUDGETARY**

A. **Budgetary Information**

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

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

The appropriated budget is prepared at the function level within the general fund and fund level for all other funds which is the legal level of control. Contrary to Ohio Revised Code, the City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. Expenditures may not exceed appropriations at the function level within the general fund and fund level for all other funds.

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

B. **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 Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund and major special revenue 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:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 5: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and for the major special revenue fund.

	Net Change in Fund Balance Major Governmental Funds	
	General	Urban Redevelopment
	GAAP Basis	\$ 366,966
Net Adjustment for Revenue Accruals	175,209	0
Net Adjustment for Expenditure Accruals	84,518	0
Budget Basis	\$ 626,693	\$ (316,106)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The City maintains a separate cash and investment pool that is available for use by all funds and accounts. Each fund type's portion of this pool is displayed on the balance sheet as Equity in Pooled Cash and Cash Equivalents.

Legal Requirements - Statutes require the classifications of monies held by the City into three categories:

Category 1 consists of “active” monies, those monies required to be kept in a “cash” or a “near-cash” status for immediate use by the City. Such monies must be maintained either as cash in the City’s treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” monies, those monies not required for use within the current five year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

Legislation permits interim monies to 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 directly issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds or other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasury Asset Reserve of Ohio (STAROhio).

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by Federal Depository Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

A. Deposits

At December 31, 2008, the carrying amount of the City's deposits was \$1,403,603 and the bank balance was \$1,637,024. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2008, \$305,738 of the City's bank balance was covered by Federal Depository Insurance.

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's Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to a least 105% of the carrying value of the deposits. Such collateral, as permitted by Charter 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.

B. 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, 2008, fair value of \$1,954,220 equals the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

C. 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.

D. Credit Risk

The credit risk of the City's investments are in the table below. The credit ratings were provided from Moody's and Standard and Poor's. The City has no investment policy that would further limit its investment choices.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

E. Custodial Credit Risk

For an investment, custodial credit risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

F. Concentration of Credit Risk

Safety of principal is the foremost objective of the City's investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed income generated from the remainder of the portfolio.

Investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
STAROhio	\$ 35,643	AAA/Aaa	\$ 35,643
Repurchase Agreement			
Victory Federal Money Market	1,918,577	AAA/Aaa	1,918,577
Total Investments	<u>\$ 1,954,220</u>		<u>\$ 1,954,220</u>

* Credit Ratings were obtained from Moody's and Standard & Poor's, respectively, for all investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2008, consist primarily of taxes, special assessments, accounts, and money due from other governments. All receivables are considered fully collectible.

A. Property Taxes

Real property taxes were levied on assessed values which equal 35 percent of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 2006.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2008, was \$13.2 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$13.2 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$13.2 per \$,1000 of assessed evaluation for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2008, was \$13.2 per \$1,000 of assessed valuation.

Real Estate

Residential/Agricultural	\$ 247,692,850
Commercial/Industrial	42,908,350
Public Utilities	2,224,120
General Tangible Personal Property	4,063,223
	<u>\$ 296,888,543</u>

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions 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, 2008. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2009 operations. The receivable is offset by deferred revenue.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

B. Income Taxes

The City levies a municipal income tax of 2.5 percent with a 1.00 percent credit on all salaries, wages, commissions, and other compensation, and net profits earned within the City, as well as incomes of residents earned outside the City. In the later case, the City does not allow a credit of income tax paid to another municipality.

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2008 follows:

	<u>Amounts</u>
Estate Tax	\$ 2,572
Local Government	415,530
Homestead and Rollback	238,328
Gasoline Tax and Auto Registration	165,980
Liquor Tax	1,684
Permissive Tax	5,499
Traffic Lights	1,423
Total	\$ 831,016

D. Long-Term Receivables

The City has a long-term project development agreement accounts receivable due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2008, \$345,000 is outstanding.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance 12/31/2007	Additions	Deletions	Balance 12/31/2008
Governmental Activities				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 164,942	\$ 52,114	\$ 0	\$ 217,056
Construction in Progress	1,031,361	59,708	0	1,091,069
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,196,303</u>	<u>111,822</u>	<u>0</u>	<u>1,308,125</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,687,667	0	0	1,687,667
Vehicles	2,911,464	195,989	117,223	2,990,230
Equipment	1,397,582	61,310	0	1,458,892
Subtotal	<u>5,996,713</u>	<u>257,299</u>	<u>117,223</u>	<u>6,136,789</u>
Infrastructure:				
Pavement	3,964,303	0	0	3,964,303
Storm Sewers	230,271	0	0	230,271
Sanitary Sewers	1,235,057	0	0	1,235,057
Total Infrastructure	<u>5,429,631</u>	<u>0</u>	<u>0</u>	<u>5,429,631</u>
<i>Total Capital Assets Being Depreciated</i>	<u>11,426,344</u>	<u>257,299</u>	<u>117,223</u>	<u>11,566,420</u>
Less Accumulated Depreciation:				
Buildings and Improvements	951,838	22,562	0	974,400
Vehicles	2,026,337	113,206	107,999	2,031,544
Equipment	936,954	171,466	0	1,108,420
Subtotal	<u>3,915,129</u>	<u>307,234</u>	<u>107,999</u>	<u>4,114,364</u>
Infrastructure:				
Pavement	1,143,266	198,215	0	1,341,481
Storm Sewers	35,516	3,838	0	39,354
Sanitary Sewers	67,223	15,438	0	82,661
Subtotal	<u>1,246,005</u>	<u>217,491</u>	<u>0</u>	<u>1,463,496</u>
Total Accumulated Depreciation	<u>5,161,134</u>	<u>524,725*</u>	<u>107,999</u>	<u>5,577,860</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>6,265,210</u>	<u>(267,426)</u>	<u>9,224</u>	<u>5,988,560</u>
Governmental Activities Capital Assets, Net	<u>\$7,461,513</u>	<u>\$ (155,604)</u>	<u>\$ 9,224</u>	<u>\$7,296,685</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 44,774
Leisure Time Activities	2,779
Community Environment	3,860
Public Works	52,165
Transportation	404,164
General Government	16,983
Total Depreciation Expense	<u>\$ 524,725</u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2008
 (CONTINUED)**

NOTE 9: INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2008, interfund balances were as follows:

Fund	Due from Other Funds	Due to Other Funds
General	\$ 46,000	\$ 0
Nonmajor Governmental	0	46,000
Total	\$ 46,000	\$ 46,000

The balance resulted from the routine lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

NOTE 10: COMPENSATED ABSENCES

Sick leave for City employees is accrued at rates of 4.6 for every 80 hours. Employees who retire or terminate service after 10 years may convert 25 percent of accumulated sick leave days into a lump-sum payment within certain limitations.

City employees generally earn vacation leave ranging from 5 to 25 days per year based on length of service. No more than the amount of vacation accrued in the previous twelve-month period can be carried forward into the next calendar year without written consent of the City Mayor.

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CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 11: **PENSION PLANS**

A. **Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan 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 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 Pension 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 and death benefits, and annual cost of living adjustments to members of both the Traditional Pension 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, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2008, the members of all three plans were required to contribute 10.00 percent of their annual covered salary to fund pension obligations. The City contributed 14.00 percent of covered payroll, of which 7.00 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to all three plans for the years ended December 31, 2008, 2007, and 2006 were \$181,648, \$212,157, and \$324,053, respectively, equal to the required contributions for each year. The full amount has been contributed for 2007 for 2006. 93.02 percent has been contributed for 2008.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

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 pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information 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 10.00 percent of their annual covered salary, while employers are required to contribute 19.50 percent for police officers and 24.00 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for police and firefighters were \$293,880 and \$402,047 for the year ended December 31, 2008, \$277,569 and \$383,728 for the year ended December 31, 2007, and \$404,720 and \$503,537 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 49.37 percent for police and 49.47 percent for firefighters has been contributed for 2008, with the remainder being reported as a liability.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement to qualifying members of both the Traditional Pension and the Combined Pension plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

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

Funding Policy - The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care. To qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and the Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2008, local government employers contributed 14.00 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents, and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$181,648, \$140,607, and \$106,441 respectively; 93 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - OP&F's post employment healthcare plan was established and is administered as an Internal Revenue Code 401 (h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employees, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401 (h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2008, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustee's primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund (Continued)

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police and firefighters were \$155,615 and \$157,340 for the year ended December 31, 2008, \$146,948 and \$172,400 for the year ended December 31, 2007 and \$160,850 and \$162,600 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 49 percent has been contributed for police and 49 percent has been contributed for firefighters for 2008.

NOTE 13: **NOTES PAYABLE**

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period.

	<u>Maturity Date</u>	<u>Balance December 31, 2007</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2008</u>
3.95% Bond Anticipation Notes, Series 2007	2007	\$ 440,000	\$ 0	\$ (444,000)	\$ 0
Total Notes Payable		<u>\$ 444,000</u>	<u>\$ 0</u>	<u>\$ (444,000)</u>	<u>\$ 0</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS

Changes in bonds and other long-term obligations of the City during 2008 were as follows:

	<u>Interest Rate</u>	<u>Principal Outstanding 12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding 12/31/08</u>	<u>Amounts Due in One Year</u>
Governmental Activities						
General Obligation Bonds:						
1995 Purvis Park Improvement Series A & B	6.25%	\$ 835,000	\$ 0	\$ 100,000	\$ 735,000	\$ 105,000
Total General Obligation Bonds		<u>835,000</u>	<u>0</u>	<u>100,000</u>	<u>735,000</u>	<u>105,000</u>
Other Long-Term Obligations						
OWDA Loan - Baintree	5.77%	78,287	0	30,557	47,730	31,365
OWDA Loan - Sewer Project	5.06%	58,539	0	28,775	29,764	29,764
OPWC Loan - Intercommunity Sewer	0.00%	259,095	0	17,869	241,226	17,869
OPWC Loan - Meadowbrook		253,635	0	13,710	239,925	13,710
Accrued Police Pension		290,407	0	5,741	284,666	5,987
Capital Lease - National City Bank Leasing		122,201	0	28,487	93,714	29,821
Capital Lease - Commerce Bank		0	112,430	0	112,430	22,426
Capital Lease - Kansas State Bank Leasing		54,411	0	12,587	41,824	13,241
Capital Lease - 1 st Source Bank Leasing		117,550	0	13,070	104,480	15,303
Capital Lease - 1 st Source Bank Leasing		117,550	0	8,682	108,868	15,961
Various Purpose General Obligation Notes	2.50%	2,815,000	2,595,000	2,815,000	2,595,000	2,595,000
Various Purpose General Obligation Notes	4.40%	0	419,000	0	419,000	419,000
Compensated Absences		1,400,832	713,861	703,691	1,411,002	787,761
Total Other Long-Term Obligations		<u>5,567,507</u>	<u>3,840,291</u>	<u>3,678,169</u>	<u>5,729,629</u>	<u>3,997,208</u>
Total Governmental Activities		<u>\$6,402,507</u>	<u>\$3,840,291</u>	<u>\$ 3,778,169</u>	<u>\$ 6,464,629</u>	<u>\$4,102,208</u>

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CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

Debt service requirements to maturity are as follows:

Year Ended 12/31	General Obligation Bonds		OWDA Loan - Baintree		OWDA Loan - Sewer Project		OPWC Loan Intercommunity Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 105,000	\$ 45,570	\$ 31,365	\$ 2,308	\$ 29,764	\$ 1,134	\$ 17,869	\$ 0
2010	110,000	39,060	16,365	472	0	0	17,869	0
2011	115,000	32,240	0	0	0	0	17,869	0
2012	130,000	25,110	0	0	0	0	17,869	0
2013	135,000	17,050	0	0	0	0	17,869	0
2014-2018	140,000	8,680	0	0	0	0	89,345	0
2019-2023	0	0	0	0	0	0	62,536	0
2024-2028	0	0	0	0	0	0	0	0
2029-2033	0	0	0	0	0	0	0	0
2034-2035	0	0	0	0	0	0	0	0
Totals	<u>\$ 735,000</u>	<u>\$ 167,710</u>	<u>\$ 47,730</u>	<u>\$ 2,780</u>	<u>\$ 29,764</u>	<u>\$ 1,134</u>	<u>\$ 241,226</u>	<u>\$ 0</u>

Year Ended 12/31	OPWC Loan Meadowbrook		Accrued Police Pension Liability		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 13,710	\$ 0	\$ 5,987	\$ 12,035	\$ 96,752	\$ 20,283	\$300,447	\$ 81,330
2010	13,710	0	6,145	11,778	99,626	15,334	263,715	66,644
2011	13,710	0	6,513	11,510	104,410	10,550	257,502	54,300
2012	13,710	0	6,793	11,230	59,802	6,119	228,174	42,459
2013	13,710	0	7,084	10,938	60,579	3,266	234,242	31,254
2014-2018	68,550	0	40,256	49,859	40,147	840	378,298	59,379
2019-2023	68,550	0	49,677	40,438	0	0	180,763	40,438
2024-2028	34,275	0	61,302	28,811	0	0	95,577	28,811
2029-2033	0	0	75,647	13,966	0	0	75,647	13,966
2034-2035	0	0	25,262	1,030	0	0	25,262	1,030
Totals	<u>\$ 239,925</u>	<u>\$ 0</u>	<u>\$ 284,666</u>	<u>\$ 191,595</u>	<u>\$ 461,316</u>	<u>\$ 56,392</u>	<u>\$2,039,627</u>	<u>\$ 419,611</u>

*Not Available

General obligation bonds are the direct obligation of the City and will be paid from the general bond retirement fund using property tax revenues. In 1995, the City issued \$1,660,000 of bonds for improving Purvis Park.

The Ohio Water Development Authority (OWDA) loans will be paid from the sewer replacement "A" fund. The Baintree loan was issued in 2000 for \$253,170. The sewer project loan was issued in 2004 for \$135,002. The Ohio Public Works Commission (OPWC) intercommunity sewer project will be paid from the sewer replacement "A" fund. This loan was issued in 2001 for \$330,270 and an additional \$27,105 in 2002. The OPWC Meadowbrook Boulevard loan will be paid from the Issue II fund. This loan was issued in 2007 for \$274,200.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

On May 8, 2008, the City issued various purpose General Obligation Bond Anticipation Notes of \$2,595,000 with an interest rate of 2.5 percent in anticipation of the issuance of bonds for the purpose of improving the City's Sanitary Sewer System.

On October 1, 2008, the City issued various purpose General Obligation Bond Anticipation Notes of \$419,000 with an interest rate of 4.4 percent in anticipation of the issuance of bonds for the purpose of improving Cedar and Warrensville Center Roads.

The accrued police pension liability will be paid from the police pension and the general funds. See Note 17 for further detail on capital leases. Compensated absences will be paid by the fund from which the employee's salary is paid.

NOTE 15: **INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2008 consisted of the following:

Fund	Transfer To	Transfer From
General Fund	\$ 0	\$ 876,727
General Bond Retirement Debt Service Fund	2,548,000	0
Nonmajor Governmental Funds	876,727	2,548,000
Total Interfund Transfers	\$ 3,424,727	\$ 3,424,727

Transfers are used to **1)** move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them, **2)** move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and **3)** use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 16: **CLAIMS AND JUDGMENTS**

The City is involved in no material litigation as either plaintiff or defendant.

The City has received federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon our experience, the City's management believes such disallowances, if any, will be immaterial.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 17: CAPITAL LEASE

The City has financed the acquisition of a snow plow truck in 2008. In prior years, the City had entered into capital lease obligations for various vehicles and building improvements. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

	Governmental Activities
Capital Assets	
Buildings and Improvements	\$ 149,415
Vehicles	401,941
Total Capital Assets	551,356
Less Accumulated Depreciation:	
Buildings and Improvements	7,564
Vehicles	70,850
Total Accumulated Depreciation	78,414
Total Capital Assets, Net	\$ 472,942

See Note 14 for the future minimum lease obligations as of December 31, 2008.

NOTE 18: RISK MANAGEMENT

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees and natural disasters. In October 2008, the City joined the Northern Ohio Risk Management Agency (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is paid from the general fund.

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

B. Worker's Compensation

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 18: **RISK MANAGEMENT** (Continued)

C. **Other**

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims, resulting from these risks, have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 19: **SHARED RISK POOL**

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Chagrin Falls, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, and University Heights. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation know 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 the commencement date of October 1, 1987, with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989, and the City of Maple Heights, whose commencement date is October 1, 1993 and the City of University Heights whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 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 2008, the City of University Heights paid \$64,292 in premiums from the general fund, which represents 5.91 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, Ohio, 44146.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

NOTE 19: **SHARED RISK POOL** (Continued)

Prior to joining NORMA, the City was insured by Travelers Insurance. The policy deductible did not exceed \$10,000 for any policy.

NOTE 20: **SUBSEQUENT EVENTS**

The City issued bond anticipation notes on May 5, 2009 for \$2,914,000 for the acquisition of motorized equipment and for resurfacing streets and repairing curbs. Interest rate on these notes are 2.5 percent with a maturity date of May 4, 2010.

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the City of University Heights, Ohio's basic financial statements and have issued our report thereon dated November 23, 2009. 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 University Heights, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of University Heights, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of University Heights, Ohio's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of University Heights, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of University Heights, Ohio's financial statements that is more than inconsequential will

of the City of University Heights, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the City of University Heights, Ohio's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting: **Findings No. 2008-1, 2008-2, 2008-3, 2008-4, and 2008-5.**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of University Heights, Ohio's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items **2008-1, 2008-2 and 2008-3** to be material weaknesses.

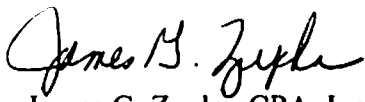
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Responses as item **2008-6.**

The City of University Heights, Ohio's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the management of the City of University Heights, Ohio, in a separate letter dated November 23, 2009.

This report is intended solely for the information and use of management, the audit committee, City Council, and others within the entity 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

November 23, 2009

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008**

**Significant Deficiency/Material Weakness - Bank Reconciliation and Deposit Process
Finding No. 2008-1**

Statement of Condition/Criteria

Based on our audit of the cash function for the City of University Heights, we noted that the monthly bank reconciliations are not being done timely. The reconciliations in total had an irreconcilable difference of \$30,571 for December 2008. Also the reconciliations prepared by the City contained reconciling items from prior years. In addition, the same City employee prepares the bank deposit forms and makes the deposits with the bank.

Cause/Effect

Bank reconciliations were not performed timely, and bank deposits were prepared and made by the same City employee. This prevented the City from discovering errors that would have led to the irreconcilable difference.

Recommendation

We recommend the City reconcile its bank accounts in a timely manner. Also any reconciling items should be investigated and corrected timely. In addition, the City can strengthen its internal control procedures by the segregation of duties in preparing the bank deposits and depositing the funds.

City's Response

The City is actively identifying reconciling items and all accounts will be reconciled on a monthly basis.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(CONTINUED)**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**Significant Deficiency/Material Weakness - Payroll
2008-2**

Statement of Condition/Criteria:

During our review of the payroll system, we noted the following deficiencies:

1. Personnel files were not updated and are incomplete.
2. Form 941 for the third quarter was not filed timely. Form 941 for the fourth quarter was inconsistent with the payroll register and the summary of W-2's. In the 4th quarter there was a pay disbursed on January 2, 2009 that was reported on the 941 incorrectly. The 2008 W-2's forms were correct and did not include this pay.
3. 1099's for 2008 were not issued by the City for contractual services.
4. Lack of cross training in payroll, disbursements and reconciliation process.
5. Employees have taken on new responsibilities without the proper training (bank reconciliations).
6. Lack of segregation of duties.
7. Payroll disbursements of \$33,877 to the Finance Director in excess of the amount the City Council authorized.
8. Payroll advance of \$3,500 to the payroll clerk approved by the Finance Director without the authorization of the City Council that was repaid in 2008.
9. Payroll bank accounts were not being reconciled in a timely manner.
10. The Finance Director was reimbursed for 24 hours of unearned leave upon leaving his position of full-time Finance Director.

Cause/Effect

Based on the above deficiencies, payroll, including sick and vacation, may be overstated or understated.

Recommendation

1. We recommend that a complete review of all personnel files, for all current employees of the City, be completed within the calendar year. We recommend that the following items be included in an employee's personnel file and be maintained by an individual who has a limited amount of payroll responsibility:
 - Signed and dated application of employment
 - Form I-9 Employment Eligibility Verification
 - Date of hire
 - Updated and Approved Pay Rate (Update as changes occur)
 - Signed W-4
 - Insurance and other benefits election forms
 - Beneficiary designation form
 - Employee evaluations
 - Benefit election forms for terminated or retired employee

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(CONTINUED)**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**Significant Deficiency/Material Weakness - Payroll (Continued)
2008-2**

Recommendation (Continued)

2. We recommend that Quarterly 941 filings be prepared with more accuracy and be filed in a timely manner each Quarter.
3. We recommend that the City start issuing required Form 1099's on a calendar year basis for reimbursements and other compensation paid to independent contractors, including those who are incorporated.
4. We recommend that the City make a greater effort to cross train their finance department employees so that every position is backed up in the event of an unexpected absence. This type of training allows employees to better fulfill their responsibilities, as well as make recommendations for improvement in other areas as well.
5. We recommend that the finance department employees be given proper training, not only their current positions and responsibilities, but also for the new responsibilities they have taken on in the absence of a full time finance director. We feel with the proper training and a clearer understanding of their job responsibilities, these employees will perform their duties more appropriately and accurately and with greater due diligence.
6. Within the financial department we noted a lack of segregation of duties and lack of a clear payroll process with adequate and effective internal controls. This lack of segregation of duties and payroll procedures combines to weaken internal control, and we believe that the opportunity exists for continued unauthorized payroll disbursements of City funds.
7. We recommend that the payroll account be reconciled each month and that any unusual items be investigated in a timely manner by management.

City's response

The City is understanding of these concerns; however, being such a small department, some duties are bound to overlap. The City will review segregation of duties and responsibilities of the Finance Department staff and adjust accordingly. The City will make every effort to be more timely in its filing of reports. The City will also put more emphasis on training. Accounts will be reconciled on a timely basis.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(CONTINUED)**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**Significant Deficiency/Material Weakness - Finance Director Timesheets
2008-3**

Statement of Condition/Criteria:

During our review of subsequent events, we noted that the Finance Director was being paid at an hourly rate for contractual services up to 1,560 hours annually or 130 hours a month, as authorized by Council through ordinance 2008-70. However, no timesheet was turned in to verify the hours worked. Also starting in May 2009, he was receiving his pay at the beginning of the month before any work was done.

Cause/Effect

Since no timesheet was submitted, there is no way of knowing if he worked the required number of hours. This could allow him to be paid a different amount than what he earned.

Recommendation

We recommend that the City require everyone who provides contractual services to the City to turn in timesheets so that the City can ensure that they are only paid for time spent working for the City.

City's Response

Timesheets are required for all employees. No pay will be issued unless hours worked is properly documented on a timesheet. For all contracted employees, hours must be verified and approved by the City department overseeing the work.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(CONTINUED)**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**Significant Deficiency - Wire Transfers
2008-4**

Statement of Condition/Criteria

During our review of wire transfers, we noted that there were wire receipts from the Auditor of State totaling \$73,031.25 that were not posted to the City's records. Also for the month of December, the City did not post the expenses related to income tax but did record the gross amount for income taxes. These expenses totaled \$20,495.26.

Cause

The City does not have a formal reconciliation procedure for wire receipts received from the Auditor of State and other sources. Also bank reconciliations are not being done on a timely basis.

Effect

Cash receipts and disbursements are recorded in error.

Recommendation

We recommend that the City record all wire transfers. Formal reconciliations ensure the early detection of problems, and it will provide management assurance that the revenues and expenditures are accurate. This was corrected in the 2008 financial statement.

City's Response

All transactions are being monitored and properly recorded. Reconciliations will be done on a monthly basis.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(CONTINUED)**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**Significant Deficiency - Proper Approval of Journal Entries
2008-5**

Statement of Condition/Criteria

The City has few employees generating miscellaneous and/or manual journal entries that are recorded into the accounting system. There were instances that were tested for which there was no evidence of supporting documentation, journal entry review or approval by appropriate City official. Proper approvals and supporting documentation are critical to help ensure that only authorized journal entries are entered into the City's accounting system.

Cause

There were instances of journal entries made in which there was no approval or proper supporting documentation.

Effect

Unrestricted access for employees to make unapproved journal entries to the accounting system is one method that can be used to cover fraudulent transactions.

Recommendation

We recommend that all journal entries be reviewed and approved by the appropriate City official and with supporting documentation before they are entered into the City's accounting system.

City's Response

Journal entries are an integral part of everyday financial accounting. All entries will be approved by the Finance Director before posting. A journal will be kept identifying all transactions.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2008
(CONTINUED)**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

**Significant Deficiency - Expenditures Exceeding Appropriations
2008-6**

Statement of Condition/Criteria

Ohio Revised Code Section 5705.41(b) prohibits a city from expending money unless it has been appropriated. The following line items in the General Fund and the Sewer Maintenance "A" Fund had expenditures that exceeded appropriations for the year ending December 31, 2008.

<u>General Fund (101)</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Appropriations</u>	<u>Expenditures</u>	
<u>Leisure Time Activities:</u>			
Personnel and Fringe Benefits	\$ 260,241	\$ 267,897	\$ (7,656)
Operations	134,240	136,916	(2,676)
<u>General Government:</u>			
Personnel and Fringe Benefits	822,306	834,803	(12,497)
Operations	861,385	960,154	(98,769)
 <u>Sewer Maintenance "A" Fund (208)</u>			
<u>General Government:</u>			
Personnel and Fringe Benefits	146,020	149,601	(3,581)

Recommendation

We recommend that the City exercise due care to ensure expenditures do not exceed final appropriations. This will assist the City in avoiding negative fund balances and also ensure they are in compliance with the Ohio Revised Code Section 5705.41(b). At each fund level, the City's expenditures were less than monies appropriated.

Effect

The City did not comply with Ohio Revised Code Section 5705.41(b).

City's Response

The City will make every effort to be in budgetary compliance with section 5705.41(b), Ohio Revised Code.

**CITY OF UNIVERSITY HEIGHTS
 CUYAHOGA COUNTY, OHIO
 STATUS OF PRIOR AUDIT FINDINGS
 DECEMBER 31, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Action Taken; or No <u>Longer Valid;</u> <u>Explain:</u>
2007-1	Bank Accounts were not Reconciled to the City's books	No	Finding repeated as as 2008-1
2007-2	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	Yes	



Mary Taylor, CPA
Auditor of State

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2010**