

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

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



Dave Yost • Auditor of State

Members of City Council and
Members of the Audit Committee
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, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

July 12, 2016

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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

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of December 31, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Sewer Maintenance A Fund and Urban Redevelopment Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, and restated its net position at December 31, 2014 for governmental activities. In addition, the City restated its net position at December 31, 2014 for governmental activities due to an error in special assessments. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of University Heights, Ohio's internal control over financial reporting and compliance.

James G. Zupka, CPA, President
Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2016.06.06 09:36:48 -0400

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

April 20, 2016

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City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

The discussion and analysis of the City of University Heights's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2015. 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 2015 are as follows:

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$8,128,724.
- The net position increased by \$2,478,671 from the prior year. Total assets and deferred outflows of resources increased by \$3,182,954 and liabilities and deferred inflows of resources increased by \$2,312,802.
- The total fund balance for the General Fund was \$4,297,380, an increase of \$406,384 from prior year.

Using this Annual Financial Report

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

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

Statement of Net Position and the Statement of Activities

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

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

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

Fund Financial Statements

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

Governmental Funds

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

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

The basic governmental fund financial statements can be found starting on page 17 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The fiduciary fund financial statements can be found starting on page 24 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 25 of this report.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

Government-wide Financial Analysis – The City as a Whole

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

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

- Assets and Deferred Outflows of Resources
- Liabilities and Deferred Inflows of Resources
- Net Position (Assets and Deferred Outflows of Resources minus Liabilities and Deferred Inflows of Resources)
- Program Expenses and Revenues
- General Revenues
- Net Position Beginning and End of Year

Table 1 provides a summary of the City's net position for 2015 as compared to 2014.

Table 1 - Net Position

	Governmental Activities	
	2015	2014 *
<u>Assets</u>		
Current and Other Assets	\$ 19,840,760	\$ 18,603,039
Net Pension Asset	3,259	888
Capital Assets	9,081,265	7,804,341
Total Assets	28,925,284	26,408,268
<u>Deferred Outflows of Resources</u>		
Pension	1,910,611	1,244,673
<u>Liabilities</u>		
Current and other liabilities	1,007,976	1,161,398
Long-term Liabilities:		
Due within one year	1,093,586	1,202,507
Due in more than one year:		
Net Pension Liability	14,126,184	13,365,032
Other Amounts	4,399,895	3,290,185
Total Liabilities	20,627,641	19,019,122
<u>Deferred Inflows of Resources</u>		
Property Taxes	2,038,732	2,728,766
Project Loan Revenue	-	255,000
Pension	40,798	-
Total Deferred Inflows of Resources	2,079,530	2,983,766
<u>Net Position</u>		
Net Investment in Capital Assets	5,961,152	4,717,888
Restricted	5,544,381	5,012,357
Unrestricted	(3,376,809)	(4,080,192)
Total Net Position	\$ 8,128,724	\$ 5,650,053

* Restated

City of University Heights, Ohio
Management’s Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

During 2015, the City adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27,” which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City’s proportionate share of each plan’s collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014 by (\$12,119,471).

Total assets increased \$2,517,016. The majority of the increase was due to increases in equity in pooled cash and cash equivalents and in capital assets. Total liabilities increased by \$1,608,519, mainly due to the issuance of new debt in 2015.

A portion of the City's net position of \$5,961,152 reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$5,544,381 represents resources that have been restricted on how they may be used.

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City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

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

Table 2 - Change in Net Position

	Governmental Activities	
	2015	2014 *
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,333,886	\$ 1,070,449
Operating Grants and Contributions	732,090	558,544
Capital Grants and Contributions	537,740	501,609
General Revenues:		
Property Taxes	3,811,497	3,925,241
Municipal Income Taxes	9,213,970	9,197,485
Payments in lieu of taxes	594,978	532,984
Other Taxes	162,034	153,474
Grants and Entitlements	866,340	894,219
Investment income	60,197	51,244
Gain on Sale of Capital Assets	24,854	-
All Other Revenue	33,384	49,159
Total Revenues	17,370,970	16,934,408
<u>Program Expenses</u>		
Security of Persons and Property	8,361,202	7,824,927
Public Health and Welfare	44,046	53,030
Leisure Time Activities	270,177	273,047
Community Development	1,364,109	987,427
Basic Utility Services	1,642,379	1,743,702
Transportation	1,466,200	1,630,875
General Government	1,613,491	1,630,793
Interest and Fiscal Charges	130,695	86,643
Total Program Expenses	14,892,299	14,230,444
Increase in Net Position	2,478,671	2,703,964
Net Position, Beginning of Year, Restated	5,650,053	N/A
Net Position, End of Year	\$ 8,128,724	\$ 5,650,053

* Restated

City of University Heights, Ohio
Management’s Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

Total revenues increased by \$436,562 or 2.58 percent mainly due to an increase in charges for services and operating grants and contributions. Operating grants and contributions increased due to FEMA money received in 2015 and not in 2014. Charges and services increased due to an increase in rental income related to the communications tower and increase in building department permits. The City’s collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2015, the income tax revenue was \$9,213,970. Another major revenue source is property taxes. The effective tax rate for 2015 was \$13.20 per \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by the City, Cuyahoga County, Cleveland Heights-University Heights City School District and Cleveland Heights-University Heights Public Library. During 2015, the property tax revenue was \$3,811,497.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,244,673 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,411,986. Consequently, in order to compare 2015 program expenses to 2014, the following adjustments are needed:

Governmental Activities	
Total 2015 program expenses under GASB 68	\$ 14,892,299
Pension expense under GASB 68	(1,411,986)
2015 contractually required pension contribution	1,278,345
Adjusted 2015 program expenses	14,758,658
Total 2014 program expenses under GASB 27	14,230,444
Increase in program expenses not related to pension	\$ 528,214

Total program expenses not related to GASB 68 pension increased by \$528,214 or 3.71 percent in 2015 when compared to 2014. This increase can be attributed mainly to an increase security persons and property due to an increase in number of Police Officers as new hires were brought on board prior to replacing 4 officers who retired in 2015.

Expenses are categorized by functions. The largest program expense, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety, was 56.14 percent of the total governmental expenses. The second largest program expense is basic utility service and represents 11.03 percent of the total governmental expenses. This program expense is made up of the sanitation department and the sewer maintenance. The City is a labor intensive industry and the expenses of the governmental activities are mainly salaries, wages and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued grants and financial assistance from the Ohio Public Works Commission. In addition, the City determines the size of the road program based upon cash available as the City has instituted a “pay as you go” philosophy.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

The City's Funds

Information about the City's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting.

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

As of the end of the year, the City's governmental funds reported combined ending fund balance of \$9,315,375, an increase of \$1,655,645 in comparison with the prior year. \$4,176,562 of the ending combined fund balance for 2015 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the governments discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General Fund is the main operating fund of the City. At the end of 2015, total fund balance for the General Fund was \$4,297,380. The General Fund balance increased by \$406,384 during the current fiscal year.

General Fund Budgeting Highlights

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

The final appropriations, including other financing uses is \$16,589,561. The actual charges to appropriations (expenditures) were \$2,194,530 below the final budgeted amount for the General Fund mostly due to the operating efficiencies and lower than expected retirements from police and fire personnel.

Capital Assets and Debt Administration

Capital Assets

At the end of 2015, the City of University Heights had \$9,081,265 invested in a broad range of capital assets, including land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

Table 3 shows fiscal 2015 balances of capital assets as compared to 2014:

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

	Governmental Activities	
	2015	2014
Land	\$ 985,954	\$ 985,954
Construction-in-progress	979,300	269,583
Buildings and Improvements	818,402	881,157
Vehicles	686,218	659,165
Equipment	494,585	291,989
Infrastructures:		
Pavement	3,902,628	3,483,425
Storm Sewers	165,377	169,138
Sanitary Sewers	1,048,801	1,063,930
Total Capital Assets	\$ 9,081,265	\$ 7,804,341

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

During 2015, the City purchased vehicles and equipment for \$623,112. The City performed street paving on Allison, Hillbrook (Fenwick to Warrensville Center), Nordway, Washington (Belvoir to East Carroll, Traymore to Miramar, and Warrensville Center to Traymore), Westwood (Edgerton to Silsby) . More detailed information about the City's capital assets is presented in Note 8 to the financial statements.

Debt

At December 31, 2015, the City of University Heights had \$4,397,754 in outstanding debt, of which \$3,490,000 was in general obligation bonds. Table 4 summarizes the outstanding debt obligations of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2015	2014
General Obligation Bonds	\$ 3,490,000	\$ 2,055,000
OPWC Loans	592,462	643,033
SIB Loan	315,292	388,420
Accrued Police Pension	-	244,755
Total Outstanding Debt	\$ 4,397,754	\$ 3,331,208

City of University Heights, Ohio
Management’s Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2015

The City paid \$235,000 on principal for the 2014 Various Purpose Bonds and \$130,000 on principal for the 2015 Park Improvement Bonds.

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

The City paid \$73,182 on principal for the State Infrastructure Bank Loan for reconstruction of University Parkway.

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

Current Related Financial Activities

In preparing for the 2016 budget, the City has recognized slightly increasing revenues. Budget projections include a slight increase in wages and income tax collections. The City expects its budgetary constraints to continue based upon decisions made by the State including the elimination of estate tax revenues. To maintain the integrity of the budget in 2016, the City will continue to control spending, continue applying for grant funding to finance capital projects and continue a policy of “pay as you go” for capital expenditures. With no unforeseen impacts to revenue or expenses, the City anticipates the General Fund balance to remain consistent in 2016.

In conclusion, the implementation of GASB Statement No. 68 requires the reader to perform additional calculations to determine the City’s Total Net Position at June 30, 2015 without the implementation of GASB Statement No. 68. This is an important exercise, as the State Pension Systems (OPERS & OP&F) collect, hold and distributes pensions to our employees, not the City of University Heights. These calculations are as follows:

Table 1: Total Net Position at December 31, 2015 (with GASB 68)	\$ 8,128,724
GASB 68 Calculations:	
Add Deferred Inflows related to Pension	40,798
Add Net Pension Liability	14,126,184
Less Deferred Outflows related to Pension	(1,910,611)
Total Net Position (without GASB 68)	<u>\$ 20,385,095</u>

Contacting the City of University Heights’s Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Larry Heiser, Director of Finance, at 2300 Warrensville Center Road, University Heights, Ohio 44118.

City of University Heights, Ohio
Statement of Net Position
December 31, 2015

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 8,378,147
Materials and Supplies Inventory	100,661
Accounts Receivable	155,729
Accrued Interest Receivable	14,119
Intergovernmental Receivable	675,499
Prepaid Items	74,720
Income Taxes Receivable	4,508,329
Property and Other Taxes Receivable	4,879,414
Special Assessments Receivable	1,054,142
Net Pension Asset	3,259
Nondepreciable Capital Assets	1,965,254
Depreciable Capital Assets	7,116,011
Total Assets	28,925,284
 DEFERRED OUTFLOWS OF RESOURCES	
Pension	1,910,611
Total Deferred Outflows of Resources	1,910,611
 LIABILITIES	
Accounts Payable	274,890
Contracts Payable	319,981
Accrued Wages and Benefits	235,553
Intergovernmental Payable	45,475
Matured Compensated Absences Payable	26,836
Accrued Interest Payable	9,372
Retainage Payable	58,216
Unearned Revenue	37,653
Long-term Liabilities:	
Due within one year	1,093,586
Due in more than one year:	
Net Pension Liability (See Note 9)	14,126,184
Other Amounts Due in more than one year	4,399,895
Total Liabilities	20,627,641
 DEFERRED INFLOWS OF RESOURCES	
Property Taxes	2,038,732
Pension	40,798
Total Deferred Inflows of Resources	2,079,530
 NET POSITION	
Net Investment in Capital Assets	5,961,152
Restricted for:	
Debt Services	1,096,490
Capital Projects	896,419
Sewer Maintenance	1,341,398
Community Development	528,332
Street Maintenance and Lighting	960,387
Other Purposes	721,355
Unrestricted	(3,376,809)
Total Net Position	\$ 8,128,724

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2015

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
Primary Government:		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental Activities:					
Security of Persons and Property	\$ 8,361,202	\$ 238,721	\$ 278,492	\$ -	\$ (7,843,989)
Public Health and Welfare	44,046	-	-	-	(44,046)
Leisure Time Activities	270,177	86,908	-	-	(183,269)
Community Development	1,364,109	593,800	-	-	(770,309)
Basic Utility Services	1,642,379	169,715	-	537,740	(934,924)
Transportation	1,466,200	-	453,598	-	(1,012,602)
General Government	1,613,491	244,742	-	-	(1,368,749)
Interest and Fiscal Charges	130,695	-	-	-	(130,695)
Total Governmental Activities	<u>\$ 14,892,299</u>	<u>\$ 1,333,886</u>	<u>\$ 732,090</u>	<u>\$ 537,740</u>	<u>(12,288,583)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					3,005,251
Debt Service Purpose					635,790
Special Revenue					170,456
Payments in Lieu of taxes					594,978
Municipal Income Taxes levied for:					
General Purposes					9,213,970
Other Taxes					162,034
Grants & Entitlements not restricted to specific programs					866,340
Investment Income					60,197
Gain on Sale of Capital Assets					24,854
All Other Revenues					33,384
Total General Revenues					<u>14,767,254</u>
Change in Net Position					2,478,671
Net Position - Beginning of Year, Restated					5,650,053
Net Position - End of Year					<u>\$ 8,128,724</u>

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2015

	General Fund	Sewer Maintenance A	Urban Redevelopment	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 2,990,695	\$ 906,756	\$ -	\$ 4,480,696	\$ 8,378,147
Materials and Supplies Inventory	45,888	-	-	54,773	100,661
Accrued Interest Receivable	14,119	-	-	-	14,119
Accounts Receivable	155,729	-	-	-	155,729
Intergovernmental Receivable	353,540	-	-	321,959	675,499
Prepaid Items	74,367	81	-	272	74,720
Income Taxes Receivable	4,508,329	-	-	-	4,508,329
Property and Other Taxes Receivable	3,915,337	-	-	964,077	4,879,414
Special Assessments Receivable	103,101	455,922	-	495,119	1,054,142
Total Assets	\$ 12,161,105	\$ 1,362,759	\$ -	\$ 6,316,896	\$ 19,840,760
LIABILITIES					
Liabilities:					
Accounts Payable	\$ 81,977	\$ 18,983	\$ 563	\$ 173,367	\$ 274,890
Accrued Wages and Benefits	227,970	1,747	-	5,836	235,553
Contracts Payable	-	-	-	319,981	319,981
Intergovernmental Payable	44,413	245	-	817	45,475
Matured Compensated Absences Payable	26,836	-	-	-	26,836
Retainage Payable	-	-	-	58,216	58,216
Unearned Revenue	37,653	-	-	-	37,653
Total Liabilities	418,849	20,975	563	558,217	998,604
DEFERRED INFLOWS OF RESOURCES					
Property Taxes	1,626,315	-	-	412,417	2,038,732
Unavailable Revenue - Delinquent Property Taxes	2,249,071	-	-	551,660	2,800,731
Unavailable Revenue - Income Taxes	3,103,934	-	-	-	3,103,934
Unavailable Revenue - Special Assessments	103,101	455,922	-	495,119	1,054,142
Unavailable Revenue - Other	362,455	-	-	166,787	529,242
Total Deferred Inflows of Resources	7,444,876	455,922	-	1,625,983	9,526,781
FUND BALANCES					
Nonspendable	120,255	81	-	55,045	175,381
Restricted	-	885,781	-	4,077,651	4,963,432
Assigned	2,721,189	-	-	-	2,721,189
Unassigned	1,455,936	-	(563)	-	1,455,373
Total Fund Balances	4,297,380	885,862	(563)	4,132,696	9,315,375
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,161,105	\$ 1,362,759	\$ -	\$ 6,316,896	\$ 19,840,760

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2015

Total Governmental Fund Balances \$ 9,315,375

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 9,081,265

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

Delinquent Property taxes	2,800,731	
Municipal Income taxes	3,103,934	
Special assessments	1,054,142	
Intergovernmental	451,261	
Charges for services	77,981	
Total		7,488,049

In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due. (9,372)

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

Deferred Outflows - Pension	1,910,611	
Deferred Inflows - Pension	(40,798)	
Net Pension Liability/(Asset)	(14,122,925)	
Total		(12,253,112)

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

General obligation bonds	(3,490,000)	
OPWC loans	(592,462)	
SIB Loan	(315,292)	
Compensated absences	(1,095,727)	
Total		(5,493,481)

Net Position of Governmental Activities **\$ 8,128,724**

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended December 31, 2015

	General Fund	Sewer Maintenance A	Urban Redevelopment	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 2,184,033	\$ -	\$ -	\$ 578,769	\$ 2,762,802
Municipal Income Taxes	9,387,001	-	-	-	9,387,001
Payments in lieu of taxes	-	-	594,978	-	594,978
Other Taxes	162,034	-	-	-	162,034
Intergovernmental	803,881	35,874	-	795,739	1,635,494
Interest	60,197	-	-	-	60,197
Licenses and Permits	362,722	-	-	-	362,722
Fines and Forfeitures	178,914	-	-	-	178,914
Charges for Services	574,894	-	-	-	574,894
Special Assessments	61,167	400,992	-	450,293	912,452
All Other Revenues	32,455	-	-	929	33,384
Total Revenues	13,807,298	436,866	594,978	1,825,730	16,664,872
EXPENDITURES					
Security of Persons and Property	6,898,649	-	-	1,295,470	8,194,119
Public Health and Welfare	53,073	-	-	-	53,073
Leisure Time Activities	261,300	-	-	-	261,300
Community Development	489,901	-	715,857	156,816	1,362,574
Basic Utility Services	1,122,494	330,730	-	180,342	1,633,566
Transportation	391,054	18,983	-	513,707	923,744
General Government	1,619,048	-	12,312	2,103	1,633,463
Capital Outlay	-	-	-	1,908,805	1,908,805
Debt Service:					
Principal Retirement	-	-	-	733,454	733,454
Interest and Fiscal Charges	-	-	-	73,983	73,983
Bond Issuance Costs	-	-	-	56,000	56,000
Total Expenditures	10,835,519	349,713	728,169	4,920,680	16,834,081
Excess of Revenues Over (Under) Expenditures	2,971,779	87,153	(133,191)	(3,094,950)	(169,209)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	24,854	-	-	-	24,854
General Obligation Bonds Issued	-	-	-	1,800,000	1,800,000
Transfer In	-	-	-	2,590,249	2,590,249
Transfer Out	(2,590,249)	-	-	-	(2,590,249)
Total Other Financing Sources (Uses)	(2,565,395)	-	-	4,390,249	1,824,854
Net Change in Fund Balances	406,384	87,153	(133,191)	1,295,299	1,655,645
Fund Balances - Beginning of Year	3,890,996	798,709	132,628	2,837,397	7,659,730
Fund Balances - End of Year	\$ 4,297,380	\$ 885,862	\$ (563)	\$ 4,132,696	\$ 9,315,375

See accompanying notes and accountant's compilation report

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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 1,655,645

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

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

Capital outlay	\$	2,058,562	
Depreciation		(768,531)	
Total			1,290,031

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (13,107)

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

Property taxes	1,048,695		
Income taxes	(173,031)		
Special assessments	(9,793)		
Intergovernmental	(1,190)		
Charges for services	(183,437)		
Total			681,244

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of general obligation bonds. (1,800,000)

Repayment of various debt principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 733,454

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,278,345

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,411,986)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	65,757		
Accrued interest	(712)		
Total			65,045

Change in Net Position of Governmental Activities **\$ 2,478,671**

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – General Fund
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Property Taxes	\$ 2,537,668	\$ 2,560,346	\$ 2,184,033	\$ (376,313)
Municipal Income Taxes	8,920,285	9,000,000	9,407,016	407,016
Other Taxes	149,663	151,000	161,328	10,328
Licenses and Permits	400,422	404,000	362,773	(41,227)
Fines and Forfeitures	207,169	209,020	179,531	(29,489)
Special Assessments	56,495	57,000	61,389	4,389
Charges for Services	540,594	545,425	549,870	4,445
Intergovernmental	812,735	819,998	806,882	(13,116)
Interest	8,920	9,000	62,369	53,369
All Other Revenues	35,680	35,999	33,128	(2,871)
Total Revenues	<u>13,669,631</u>	<u>13,791,788</u>	<u>13,808,319</u>	<u>16,531</u>
EXPENDITURES:				
Current:				
General Government	2,095,190	2,095,190	1,778,804	316,386
Security of Persons and Property	8,903,130	8,903,130	7,356,536	1,546,594
Basic Utility	1,352,205	1,352,205	1,224,774	127,431
Transportation	491,430	491,430	452,067	39,363
Public Health and Welfare	54,000	54,000	53,073	927
Community Development	677,161	677,161	550,557	126,604
Leisure Time Activities	326,196	326,196	288,971	37,225
Total Expenditures	<u>13,899,312</u>	<u>13,899,312</u>	<u>11,704,782</u>	<u>2,194,530</u>
Excess of Revenues over Expenditures	<u>(229,681)</u>	<u>(107,524)</u>	<u>2,103,537</u>	<u>2,211,061</u>
OTHER FINANCING SOURCES (USES):				
Sale of Fixed Assets	12,000	12,000	16,354	4,354
Transfers In	245,000	245,000	-	(245,000)
Transfers Out	(2,468,000)	(2,590,249)	(2,590,249)	-
Advances In	100,000	100,000	100,000	-
Advances Out	(100,000)	(100,000)	(100,000)	-
Total Other Financing Sources and Uses	<u>(2,211,000)</u>	<u>(2,333,249)</u>	<u>(2,573,895)</u>	<u>(240,646)</u>
Net Change in Fund Balance	(2,440,681)	(2,440,773)	(470,358)	1,970,415
Fund Balances, Beginning	2,123,198	2,123,198	2,123,198	-
Prior Year Encumbrances Appropriated	740,681	740,681	740,681	-
Fund Balances, Ending	<u>\$ 423,198</u>	<u>\$ 423,106</u>	<u>\$ 2,393,521</u>	<u>\$ 1,970,415</u>

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Sewer Maintenance A Fund
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Special Assessments	\$ 1,630,000	\$ 430,000	\$ 400,992	\$ (29,008)
Intergovernmental	-	-	60,686	60,686
Total Revenues	<u>1,630,000</u>	<u>430,000</u>	<u>461,679</u>	<u>31,679</u>
EXPENDITURES:				
Current:				
Basic Utility Services	2,410,934	1,210,934	597,225	613,709
Total Expenditures	<u>2,410,934</u>	<u>1,210,934</u>	<u>597,225</u>	<u>613,709</u>
Net Change in Fund Balance	(780,934)	(780,934)	(135,546)	645,388
Fund Balances, Beginning of Year, Restated	639,510	639,510	639,510	-
Prior Year Encumbrances Appropriated	301,109	301,109	301,109	-
Fund Balances, End of Year	<u>\$ 159,685</u>	<u>\$ 159,685</u>	<u>\$ 805,073</u>	<u>\$ 645,388</u>

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Urban Redevelopment Fund
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Payment In Lieu of Taxes	\$ 6,540,000	\$ 594,978	\$ 594,978	\$ -
EXPENDITURES:				
Current:				
Community Development	6,540,000	594,978	594,978	-
Net Change in Fund Balance	-	-	-	-
Fund Balances, Beginning of Year	-	-	-	-
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and accountant's compilation report

City of University Heights, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2015

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 333,792
Total Assets	<u>\$ 333,792</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 333,792
Total Liabilities	<u>\$ 333,792</u>

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

City of University Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

NOTE 1: **The Reporting Entity**

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of University Heights, this includes police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City does not have any component units.

NOTE 2: **Summary of Significant Accounting Policies**

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

A. **Basis of Presentation**

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

Government-Wide Financial Statements

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

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

Fund Financial Statements

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

B. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary. The City does not maintain any proprietary funds.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used.

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources compared to liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

Sewer Maintenance "A" Special Revenue Fund - The Sewer Maintenance "A" Special Revenue Fund accounts for all maintenance of the sewers.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

B. Fund Accounting (Continued)

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 City School District.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's own fiduciary funds are agency funds which consist primarily of construction deposits.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Position, except for fiduciary funds. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

C. **Measurement Focus** (Continued)

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

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

D. **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7).

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, project revenue, pension and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance year 2016 operations and project revenue represents imposed nonexchange revenues. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and other. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 9).

Expenses/Expenditures

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

E. **Budgetary Process**

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

E. **Budgetary Process** (Continued)

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.

F. **Cash and Cash Equivalents**

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

The City utilizes a trustee to hold monies related to the Tax Increment Financing Project. The balance at year end is related to disbursements not yet made.

During 2015, the portfolio was limited to a money market mutual fund, municipal bond, negotiable certificates of deposits and federal agencies.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2015 amounted to \$60,197, which includes \$39,548 assigned from other funds. GASB Statement No. 31 requires the change in fair value to be reported as revenue. During 2015, the change in fair value decreased the City's total investments by \$8,879. This decrease of the change in fair value resulted in the City presenting a negative amount in interest income on the financial statements.

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

G. **Inventory**

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

H. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of pavement, storm sewers, and sanitary sewers. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. Interfund Balances

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

K. Accrued Liabilities and Long-Term Obligations

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

L. Compensated Absences

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

The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2015.

M. Pensions

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

N. Fund Balance

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

N. **Fund Balance** (Continued)

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

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

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

O. **Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports \$5,544,381 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

P. **Interfund Activity**

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2015.

R. Estimates

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

NOTE 3: **Change in Accounting Principles and Restatement of Net Position**

A. Change in Accounting Principles

For year 2015, the City has implemented GASB Statement No. 68, “Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27”, and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68”.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the City’s financial statements, pension plan disclosures, and added required supplementary information.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

B. Restatement of Net Position

A restatement of prior period’s governmental activities’ net position was necessary to exclude the TIF project levy from special assessment receivable and to implement GASB Statement No. 68 and 71. Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The beginning fund balance was restated on the statement of revenues, expenditures and changes in fund balances – Budget and Actual statement for the Sewer Maintenance A Fund.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 3: Change in Accounting Principles and Restatement of Net Position (Continued)

B. Restatement of Net Position (Continued)

The restatement is as follows:

	Governmental Activities
Net Position as of December 31, 2014	\$ 20,050,492
Adjustments:	
Special Assessment Receivable	(2,280,968)
Net Pension Liability	(13,365,032)
Net Pension Assets	888
Deferred Outflow - Payments Subsequent to Measurement Date	1,244,673
Restated Net Position December 31, 2014	\$ 5,650,053

NOTE 4: Fund Balances

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

	General	Sewer Maintenance A	Urban Redevelopment	Other Governmental Funds	Total
Components of Fund Balance:					
<i>Nonspendable</i>					
Prepaid Items	\$ 74,367	\$ 81	\$ -	\$ 272	\$ 74,720
Inventories	45,888	-	-	54,773	100,661
Total Nonspendable	120,255	81	-	55,045	175,381
<i>Restricted</i>					
Streets and Highways	-	-	-	634,018	634,018
Law Enforcement	-	-	-	292,480	292,480
Sewers	-	885,781	-	-	885,781
Street Lighting	-	-	-	41,623	41,623
Tree Improvement	-	-	-	500,423	500,423
Recycling	-	-	-	10,000	10,000
Community	-	-	-	1,108,549	1,108,549
Energy Projects	-	-	-	39,178	39,178
General Bond Retirement	-	-	-	187,185	187,185
Sewer Bond Retirement	-	-	-	367,776	367,776
Capital Improvements	-	-	-	896,419	896,419
Total Restricted	-	885,781	-	4,077,651	4,963,432
<i>Assigned</i>					
Fiscal Year 2016 Appropriations	2,187,793	-	-	-	2,187,793
Purchases on Order	533,000	-	-	-	533,000
Off street parking	396	-	-	-	396
Total Assigned	2,721,189	-	-	-	2,721,189
<i>Unassigned</i>	1,455,936	-	(563)	-	1,455,373
Total Fund Balance	\$ 4,297,380	\$ 885,862	\$ (563)	\$ 4,132,696	\$ 9,315,375

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 5: **Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund, Sewer Maintenance "A" Fund, and Urban Redevelopment Fund.

Net Change in Fund Balance			
	General	Sewer Maintenance A	Urban Redevelopment
GAAP Basis	\$ 406,384	\$ 87,153	\$ (133,191)
Increase (Decrease) Due to:			
Revenue Accruals	(7,479)	24,812	-
Advances In	100,000	-	-
Expenditure Accruals	(265,804)	(145,828)	-
Advances Out	(100,000)	-	-
Net Impact of Encumbrances	(603,459)	(101,683)	-
Budgetary Basis	\$ (470,358)	\$ (135,546)	\$ (133,191)

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 6: **Deposits and Investments**

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

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

Inactive deposits are monies identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either within the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured.

At year-end, the carrying amount of the City's deposits was \$2,901,557, and the bank balance was \$2,987,444. Of the bank balance, \$538,766 was covered by Federal depository insurance and \$2,448,678 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

Investments are reported at fair value. As of December 31, 2015, the city had the following investments:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			<1	1-3	3-5
<u>Investment Type:</u>					
Money Market Mutual Fund	\$ 23,512	N/A	\$ 23,512	\$ -	\$ -
Municipal Bond	351,806	N/A	351,806		
Negotiable CD's	1,596,864	N/A	500,753	749,414	346,697
U.S. Agencies	3,838,200	Aaa/AA+	-	498,945	3,339,255
Total Investments	<u>5,810,382</u>		<u>\$ 876,071</u>	<u>\$ 1,248,359</u>	<u>\$ 3,685,952</u>

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

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

NOTE 7: **Receivables**

A. **Property Taxes**

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections for 2014 taxes. Property tax payments received during 2015 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due mid January with the remainder payable by mid July. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

Tangible personal property used in business (except for public utilities) was phased out – the assessment percentage for all property including inventory for 2015 is zero. Amounts for prior year unpaid tangible personal property taxes may still be collected. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 7: **Receivables** (Continued)

A. **Property Taxes** (Continued)

The tax rate levied to finance the City's services for the year ended December 31, 2015 was \$13.20. The assessed values of real and public utility property upon which 2015 property tax receipts were based are as follows:

Property Category	Assessed Value
Residential/agricultural	\$ 210,586,370
Commerical/industrial	29,047,200
Public Utility	3,268,430
Total	\$ 242,902,000

B. **Income Taxes**

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

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

C. **Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

Revenue Description	Amount
Local Government	\$ 190,668
Homestead and Rollback	193,695
Gasoline and Auto Registration tax	198,860
Permissive tax and Liquor Permits	5,501
Estate tax	1,490
Miscellaneous	85,285
Total	\$ 675,499

D. **Project Loan Receivables**

The City has a long-term project development agreement related to the City's TIF Project. Accounts receivable for the project is due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2015, the current receivable balance was written off by the City due to it being uncollectible.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 8: **Capital Assets**

Capital asset activity for government the year ended December 31, 2015, was as follows:

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 985,954	\$ -	\$ -	\$ 985,954
Construction in progress	269,583	709,717	-	979,300
Total non-depreciable assets	<u>1,255,537</u>	<u>709,717</u>	<u>-</u>	<u>1,965,254</u>
Capital Assets, being depreciated:				
Buildings and Improvements	2,049,488	-	-	2,049,488
Vehicles	3,269,747	294,029	(493,400)	3,070,376
Equipment	1,422,327	329,083	(161,953)	1,589,457
Infrastructure:				
Pavement	6,200,601	725,733	-	6,926,334
Storm Sewers	230,271	-	-	230,271
Sanitary Sewers	1,235,057	-	-	1,235,057
Total Capital Assets, being depreciated	<u>14,407,491</u>	<u>1,348,845</u>	<u>(655,353)</u>	<u>15,100,983</u>
Less Accumulated depreciation:				
Buildings and Improvements	(1,168,331)	(62,755)	-	(1,231,086)
Vehicles	(2,610,582)	(257,108)	483,532	(2,384,158)
Equipment	(1,130,338)	(123,248)	158,714	(1,094,872)
Infrastructure:				
Pavement	(2,717,176)	(306,530)	-	(3,023,706)
Storm Sewers	(61,133)	(3,761)	-	(64,894)
Sanitary Sewers	(171,127)	(15,129)	-	(186,256)
Total Accumulated depreciation	<u>(7,858,687)</u>	<u>(768,531)</u>	<u>642,246</u>	<u>(7,984,972)</u>
Total Capital Assets being depreciated, net	<u>6,548,804</u>	<u>580,314</u>	<u>(13,107)</u>	<u>7,116,011</u>
Governmental Activities Capital Assets, net	<u>\$ 7,804,341</u>	<u>\$ 1,290,031</u>	<u>\$ (13,107)</u>	<u>\$ 9,081,265</u>

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 135,546
Leisure Time Activities	11,379
Community Development	14,949
Basic Utility Services	35,937
Transportation	567,087
General Government	3,633
	<u>\$ 768,531</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 9: Defined Benefit Pension Plans

For 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported December 31, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

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

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$291,990 for 2015.

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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

	Police	Firefighters
2015 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
2015 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$986,355 for 2015.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Proportionate Share of the Net Pension Liability/(Asset)	\$2,265,681	(\$3,259)	\$5,543,875	\$ 6,316,628	\$14,122,925
Proportion of the Net Pension Liability/Asset	0.018785%	0.008464%	0.1070160%	0.1219328%	
Pension Expense	247,369	2,165	542,414	620,038	1,411,986

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F Police	OP&F Fire	Total
Deferred Outflows of Resources				
Differences between expected and actual experience	\$121,089	\$238,936	\$272,241	\$632,266
City contributions subsequent to the measurement date	291,990	473,413	512,942	1,278,345
Total Deferred Outflows of Resources	<u>\$413,079</u>	<u>\$712,349</u>	<u>\$785,183</u>	<u>\$1,910,611</u>
Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments	<u>\$40,798</u>	<u>\$0</u>	<u>\$0</u>	<u>\$40,798</u>

\$1,278,345 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

Year Ending December 31:	OPERS	OP&F Police	OP&F Fire	Total
2016	(\$11,788)	\$59,734	\$68,060	\$116,006
2017	(11,788)	59,734	68,060	\$116,006
2018	(27,081)	59,734	68,060	\$100,713
2019	(30,154)	59,734	68,061	\$97,641
2020	118	0	0	118
Thereafter	402	0	0	402
Total	<u>(\$80,291)</u>	<u>\$238,936</u>	<u>\$272,241</u>	<u>\$430,886</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

The total pension asset in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 8.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

The most recent experience study was completed for the five year period ended December 31, 2010.

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

City's proportionate share of the net pension liability/(asset)	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Traditional Pension Plan	\$ 4,168,204	\$ 2,265,681	\$ 663,298
Combined Plan	\$ 423	\$ (3,259)	\$ (6,179)

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* levered 2x

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 16,404,869	\$ 11,860,503	\$ 8,012,806

NOTE 10: **Post-Employment Benefits**

A. **Ohio Public Employees Retirement System**

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.00 percent of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined Plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2015. As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.00 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA participants in the Member-Directed Plan for 2015 was 4.50 percent. The City's actual employer contributions for December 31, 2015, 2014 and 2013 which were used to fund post-employment benefits were \$48,895, \$46,936, and \$21,691, respectively; 100 percent has been contributed for 2015, and 100 percent for 2014 and 2013.

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

B. Ohio Police and Fire Pension Fund (Continued)

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

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2015 thru December 31, 2015. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$12,427 and \$10,893 for the year ended December 31, 2015, \$11,755 and \$10,883 for the year ended December 31, 2014, and \$80,782 and \$78,995 for the year ended December 31, 2013, respectively. The full amount has been contributed for 2015, 2014 and 2013.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 11: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2015 was as follows:

	Restated Balance 12/31/2014	Additions	Retired	Balance 12/31/2015	Due Within One Year
General Obligation Bonds					
2.40% 2013 Various Purpose Bonds	\$ 2,055,000	\$ -	\$ 235,000	\$ 1,820,000	\$ 245,000
2.42% 2015 Park Improvement Bonds	-	1,800,000	130,000	1,670,000	100,000
Total General Obligation Bonds	2,055,000	1,800,000	365,000	3,490,000	345,000
OPWC Loans					
0.00% Issue II Loan	134,015	-	17,869	116,146	17,869
0.00% Meadowbrook Sanitary Sewer	157,665	-	13,710	143,955	13,710
0.00% Meadowbrook Rehabilitation Phase II	351,353	-	18,992	332,361	18,992
Total OPWC Loans	643,033	-	50,571	592,462	50,571
Net Pension Liability					
OPERS	2,214,507	51,174	-	2,265,681	-
OP&F	11,150,525	709,978	-	11,860,503	-
Total Net Pension Liability	13,365,032	761,152	-	14,126,184	-
Other Obligations					
SIB Loan	388,420	-	73,128	315,292	75,338
Accrued Police Pension	244,755	-	244,755	-	-
Accrued Compensated Absences	1,161,484	558,582	624,339	1,095,727	622,677
Total Other Obligations	1,794,659	558,582	942,222	1,411,019	698,015
Total Long-Term Liabilities	\$ 17,857,724	\$ 3,119,734	\$ 1,357,793	\$ 19,619,665	\$ 1,093,586

Principal and interest requirement to retire the long-term debt obligations outstanding at December 31, 2015 were as follows:

Year	Governmental Activities						
	General Obligation Bonds		OPWC Loans	SIB Loan		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2016	\$ 345,000	\$ 84,094	\$ 50,571	\$ 75,338	\$ 8,898	\$ 470,909	\$ 92,992
2017	350,000	75,794	50,571	77,615	6,621	478,186	82,415
2018	355,000	67,374	50,571	79,961	4,275	485,532	71,649
2019	370,000	58,832	50,571	82,378	1,858	502,949	60,690
2020	380,000	49,930	50,571	-	-	430,571	49,930
2021-2025	1,155,000	129,186	190,311	-	-	1,345,311	129,186
2026-2030	535,000	32,787	101,815	-	-	636,815	32,787
2031-2033	-	-	47,481	-	-	47,481	-
Totals	\$ 3,490,000	\$ 497,997	\$ 592,462	\$ 315,292	\$ 21,652	\$ 4,397,754	\$ 519,649

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

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

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

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

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

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

See Note 9 for further information on Net Pension Liability.

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

The accrued police pension liability was paid off in 2015 from the Police Pension Fund. Compensated absences will be paid by the fund from which the employee's salary is paid.

NOTE 12: **Risk Management**

A. **Property and Liability**

The City is exposed to various risk of loss related to torts, theft, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. In October 2008, the City joined the Northern Ohio Risk Management Agency (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability, and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. 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. **Workers' Compensation**

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 12: **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 employees' health and life insurance. Settled claims resulting from these risks, have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13: **Compensated Absences**

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

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

NOTE 14: **Contingencies/Pending Litigation**

A. **Grants**

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2015.

B. **Litigation**

The City is party to a few claims and lawsuits. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall position of the City at December 31, 2015.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2015

NOTE 15: Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 2,590,249
Nonmajor Governmental Funds	2,590,249	-
Total	<u>\$ 2,590,249</u>	<u>\$ 2,590,249</u>

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

NOTE 16: Shared Risk Pool

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

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of the cities of Eastlake and Solon, whose commencement date is October 1, 1989, the City of Maple Heights, whose commencement date is October 1, 1993, and the City of University Heights whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

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

Required Supplementary Information

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

Traditional Plan	2014	2013
City's Proportion of the Net Pension Liability	0.018785%	0.018785%
City's Proportionate Share of the Net Pension Liability	\$2,265,681	\$2,214,507
City's Covered-Employee Payroll	\$2,310,675	\$2,140,177
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	98.05%	103.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%
Combined Plan	2014	2013
City's Proportion of the Net Pension Asset	0.008464%	0.008464%
City's Proportionate Share of the Net Pension (Asset)	(\$3,259)	(\$888)
City's Covered-Employee Payroll	\$31,175	\$28,877
City's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered Employee Payroll	10.45%	3.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.83%	104.33%

(1) Information prior to 2013 is not available.

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

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

Police	2014	2013
City's Proportion of the Net Pension Liability	0.1070160%	0.1070160%
City's Proportionate Share of the Net Pension Liability	\$5,543,875	\$5,212,015
City's Covered-Employee Payroll	\$2,365,737	\$2,267,622
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	234.34%	229.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%
Fire	2014	2013
City's Proportion of the Net Pension Liability	0.1219328%	0.1219328%
City's Proportionate Share of the Net Pension Liability	\$6,316,628	\$5,938,510
City's Covered-Employee Payroll	\$2,187,919	\$2,190,845
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	288.70%	271.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions</u>			
Traditional Plan	\$286,331	\$277,281	278,223
Combined Plan	<u>\$5,659</u>	<u>\$3,741</u>	<u>3,754</u>
Total Required Contributions	\$291,990	\$281,022	\$281,977
Contributions in Relation to the Contractually Required Contribution	<u>(\$291,990)</u>	<u>(\$281,022)</u>	<u>(\$281,977)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered-Employee Payroll			
Traditional Plan	\$2,386,092	\$2,310,675	\$2,140,177
Combined Plan	\$47,158	\$31,175	\$28,877
<u>Contributions as a Percentage of Covered-Employee Payroll</u>			
Traditional Plan	12.00%	12.00%	13.00%
Combined Plan	12.00%	12.00%	13.00%

[1] – Information prior to 2013 is not available

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>Contractually Required Contributions</u>										
Police	\$473,413	\$449,490	\$356,697	\$297,057	\$315,539	\$312,693	\$300,571	\$293,880	\$277,569	\$404,551
Fire	\$512,942	\$514,161	\$443,208	\$392,577	\$413,498	\$400,667	\$388,210	\$402,047	\$383,728	\$494,102
Total Required Contributions	\$986,355	\$963,651	\$799,905	\$689,634	\$729,037	\$713,360	\$688,781	\$695,927	\$661,297	\$898,653
Contributions in Relation to the Contractually Required Contribution	(\$986,355)	(\$963,651)	(\$799,905)	(\$689,634)	(\$729,037)	(\$713,360)	(\$688,781)	(\$695,927)	(\$661,297)	(\$898,653)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
City's Covered-Employee Payroll										
Police	\$2,491,647	\$2,365,737	\$2,267,622	\$2,329,859	\$2,474,816	\$2,452,494	\$2,357,420	\$2,304,941	\$2,177,012	\$3,442,987
Fire	\$2,182,732	\$2,187,919	\$2,190,845	\$2,275,809	\$2,397,090	\$2,322,707	\$2,250,493	\$2,330,707	\$2,224,510	\$3,040,628
<u>Contributions as a Percentage of Covered-Employee Payroll</u>										
Police	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	11.75%
Fire	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	16.25%

[1] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

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
University Heights, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 20, 2016, wherein we noted the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, and restated its net position at December 31, 2014 for governmental activities. In addition, the City restated its net position at December 31, 2014 for governmental activities due to an error in special assessments.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we considered a material weakness as item **2015-001**.

Compliance and Other Matters

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

Response to Finding

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

Purpose of This Report

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



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

April 20, 2016

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA, COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD ENDING DECEMBER 31, 2015**

Finding 2015-001 - Material Weakness - Special Assessment Receivable

Statement of Condition

The City overstated the amount it was reporting for special assessment receivable. The following funds were restated:

General	\$ 32,724
Tree Improvement Fund	513,932
Street Lighting Fund	450,663
Sewer Maintenance A Fund	1,045,150
Sewer Replacement Fund	<u>238,499</u>
Total	<u>\$ 2,280,968</u>

This restatement had no effect on fund balance. The governmental activities net position decreased by \$2,280,968.

Cause/Effect

The special assessment receivable was overstated due to an error in calculation.

Recommendation

To enhance controls over the accurate recording of special assessment receivable and financial statement reporting, a more thorough review of the information should be provided by a third party for accuracy and reasonableness.

Client Response

The City recognizes the error in the compliance and will better monitor the accruals moving forward.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Finding Number	Finding Summary	Fully Corrected?
2013-001	Final appropriations in excess of Estimated Revenue and Carryover Balances	Yes
2013-002	Final appropriations in excess of Actual Resources	Yes

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

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Dave Yost • Auditor of State

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 26, 2016**